

POWER FINANCIAL CORPORATION

ANNUAL REPORT 2003

GREAT-WEST LIFE

LONDON LIFE

FREEDOM 55™

CANADA LIFE

GREAT-WEST LIFE
& ANNUITY

GREAT-WEST HEALTHCARE™

INVESTORS

MACKENZIE

PARGESA



POWER FINANCIAL
CORPORATION



ATTENTION TO DETAIL

Attention to detail can produce lasting results, whether it be in business or in architecture, as the photographs of Power Financial's premises in the following pages demonstrate.

At Power Financial Corporation, we believe that focusing on the details is essential to achieving long-term value for shareholders.

We seek to apply this principle throughout our group.

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POWER FINANCIAL CORPORATION

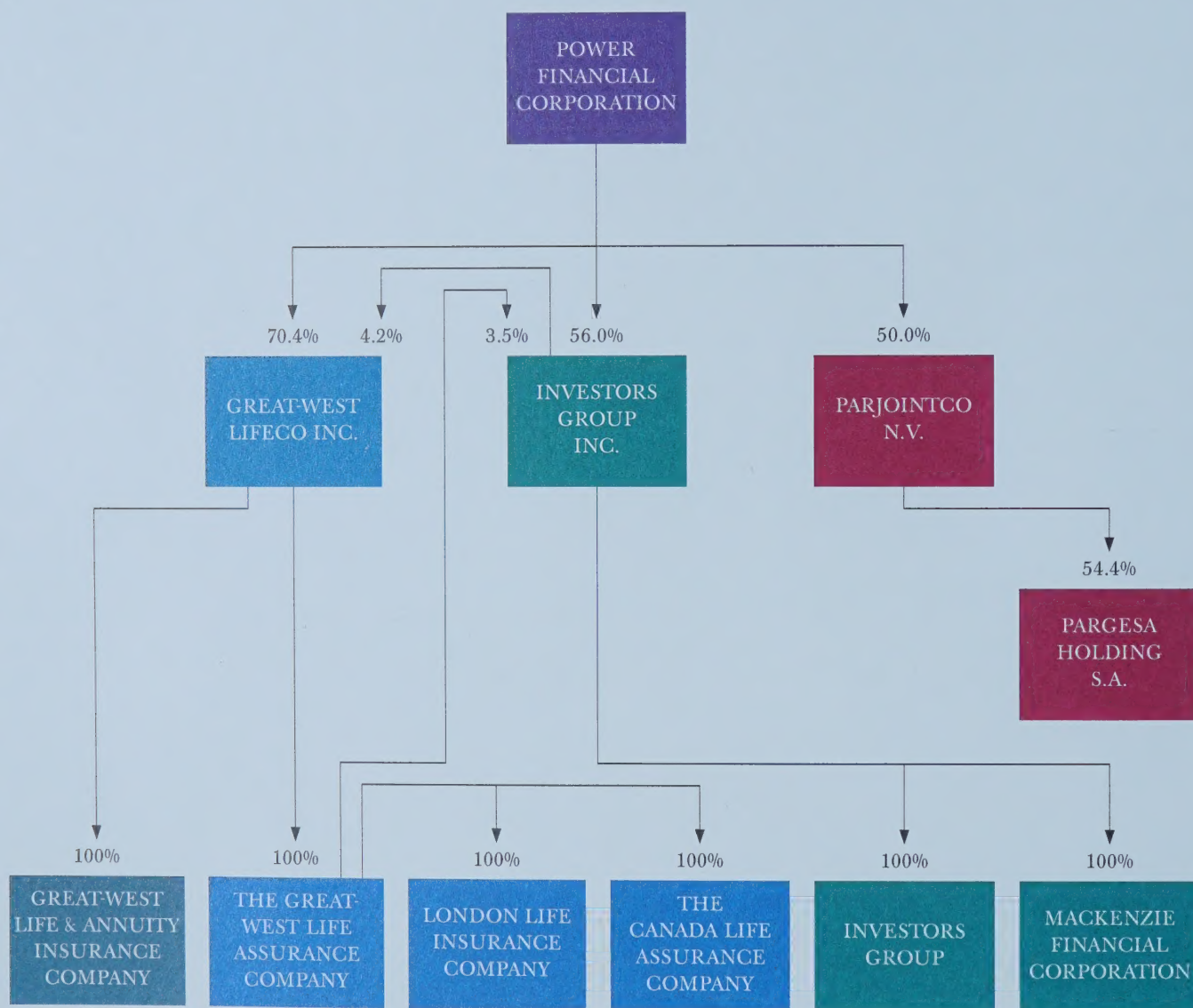
FINANCIAL HIGHLIGHTS

DECEMBER 31 [IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2003	2002
Total revenue	15,369	18,603
Net earnings	2,023	988
Operating earnings	1,261	1,074
Operating earnings per common share	3.43	2.97
Net earnings per common share	5.62	2.72
Dividends declared per common share	1.205	1.04
Total assets	105,960	68,319
Total assets and assets under administration	242,333	172,815
Shareholders' equity	8,137	6,855
Book value per common share	19.77	16.73
Common shares outstanding [in millions]	348.4	346.9

The Corporation uses operating earnings as a performance measure in analysing its financial performance. For a discussion of the Corporation's use of non-GAAP financial measures, please refer to Management's Discussion and Analysis of Operating Results in this Annual Report.

GROUP ORGANIZATION CHART

PERCENTAGES DENOTE PARTICIPATING EQUITY INTEREST AS OF DECEMBER 31, 2003



PROFILE

POWER FINANCIAL CORPORATION HAS SIGNIFICANT INTERESTS
IN THE FOLLOWING COMPANIES:

GREAT-WEST LIFECO INC.

holds a 100 per cent interest in The Great-West Life Assurance Company (Great-West Life) and in Great-West Life & Annuity Insurance Company. Great-West Life holds 100 per cent of London Insurance Group Inc., which in turn owns 100 per cent of London Life Insurance Company; Great-West Life also has 100 per cent of Canada Life Financial Corporation, which holds 100 per cent of The Canada Life Assurance Company. Total assets and assets under administration of Lifeco and its operating subsidiaries are over \$159 billion.

THE GREAT-WEST LIFE ASSURANCE COMPANY

is a leading insurer in Canada, offering a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations. Together with its subsidiaries, London Life Insurance Company and The Canada Life Assurance Company, Great-West Life serves the financial security needs of more than 12 million Canadians.

LONDON LIFE INSURANCE COMPANY

offers financial security advice through its *Freedom 55 Financial*TM Division. London Life provides savings and investment, retirement income and individual life insurance products and mortgages in Canada, and operates internationally through its subsidiary London Reinsurance Group Inc., a supplier of reinsurance in the United States and Europe.

THE CANADA LIFE ASSURANCE COMPANY

provides insurance and wealth management products and services through its network of offices to millions of clients and policyholders worldwide.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

operates in the United States of America, providing a full range of health care, life and disability insurance, annuities, and retirement savings products and services.

PROFILE

CONTINUED

INVESTORS GROUP INC.

together with Mackenzie Financial Corporation, is Canada's largest mutual fund organization with \$75 billion in mutual fund assets under management. With close to one million clients and \$41 billion in mutual fund assets under management, Investors Group holds a strong leadership position in the financial services industry. Through Investors Group's own network of over 3,200 consultants nationwide, clients receive comprehensive investment, retirement, tax- and estate-planning advice and service, and a full range of investments through Investors *Masterseries*TM and third-party advised funds, together with a broad selection of insurance, banking, mortgage and securities products and services.

MACKENZIE FINANCIAL CORPORATION

is a multifaceted investment management and financial services corporation with \$38.3 billion in assets under management and administration and more than one million client accounts. Mackenzie mutual funds are sold through relationships with nearly 40,000 independent financial advisors across Canada. Mackenzie also offers a family of mutual and segregated funds, provides trustee, administrative and securities services, and offers a wide variety of deposit and lending products.

THE PARGESA GROUP

holds significant positions in four large companies based in Europe. These companies operate in strategic industries, including media and entertainment, energy, water, waste services, and specialty minerals.

The fifteen-year figures shown on pages 5, 15 and 45, cover the period ending March 31, 2004. The figures showing annual returns and dividends paid by Pargesa cover the period January 1, 1991 to March 31, 2004. 1991 was the first full year of results for Pargesa following the creation of Power Financial's partnership with the Frère group.

POWER FINANCIAL CORPORATION

Power Financial Corporation's strategy is to own controlling interests in financial services companies with strong fundamentals: a low cost structure, competitive and strategically viable distribution channels, value-added products and a size that allows them to invest and develop profitably.

Power Financial has been a key participant in the consolidation of financial services in Canada. Its subsidiaries have acquired London Life in 1997 for \$2.95 billion, Mackenzie Financial Corporation in 2001 for \$4.1 billion and Canada Life in 2003 for \$7.2 billion.

Power Financial has also sought to maintain a balance between Canadian and non-Canadian earnings, first through the American and European operations of Great-West Lifeco and second through its investment in Pargesa, a European based holding company.

Power Financial's goal is to provide superior long-term returns to shareholders.

22.4%

fifteen-year annual compound return
to shareholders

\$1.5 billion to \$19.3 billion

fifteen-year growth in market capitalization

\$2.6 billion

aggregate dividends paid
to shareholders over fifteen years

POWER FINANCIAL CORPORATION DIRECTORS' REPORT TO SHAREHOLDERS



PAUL DESMARAIS, JR.
CHAIRMAN OF THE BOARD,
POWER FINANCIAL CORPORATION



ROBERT GRATTON
PRESIDENT AND CHIEF EXECUTIVE OFFICER,
POWER FINANCIAL CORPORATION

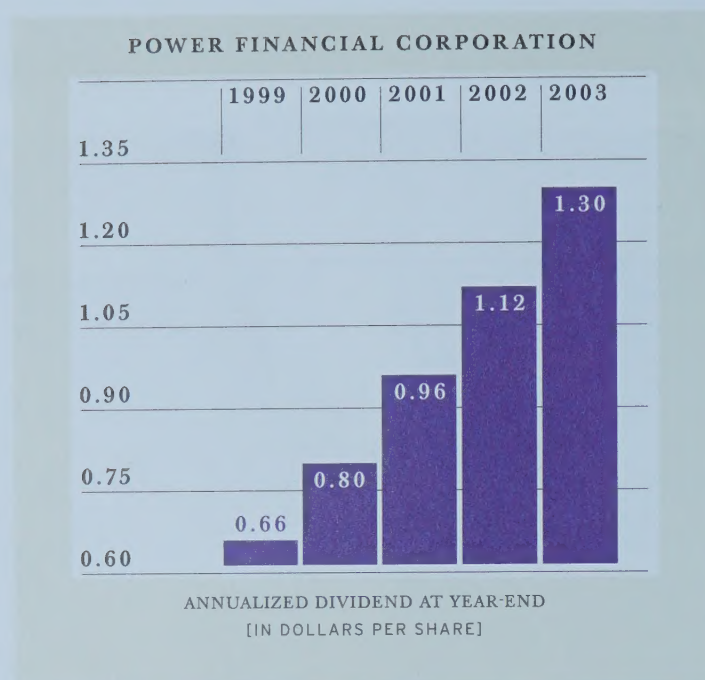
Power Financial Corporation's operating earnings for the year ended December 31, 2003 were \$1,261 million or \$3.43 per share, compared with \$1,074 million or \$2.97 per share for the same period in 2002. This represents a 15.5 per cent increase on a per share basis.

The contribution from Power Financial's subsidiaries and affiliate to operating earnings totalled \$1,294 million in 2003, as against \$1,087 million in 2002, an increase of \$207 million or 19 per cent. This is primarily due to an increase in the contribution from Great-West Lifeco and Investors Group. The contribution from Parjointco to operating earnings was \$88 million.

Other income amounted to \$762 million or \$2.19 per share in 2003. Other income for 2003 included primarily a net dilution gain of \$888 million (calculated on an equity basis) recorded in connection with the acquisition of Canada Life Financial Corporation by Great-West Lifeco. Other income in 2002 consisted of a charge of \$86 million or \$0.25 per share, representing the impact of non-operating items within the Pargesa group.

Net earnings including other income for 2003 were \$2,023 million or \$5.62 per share, compared with \$988 million or \$2.72 per share in 2002.





DIVIDENDS

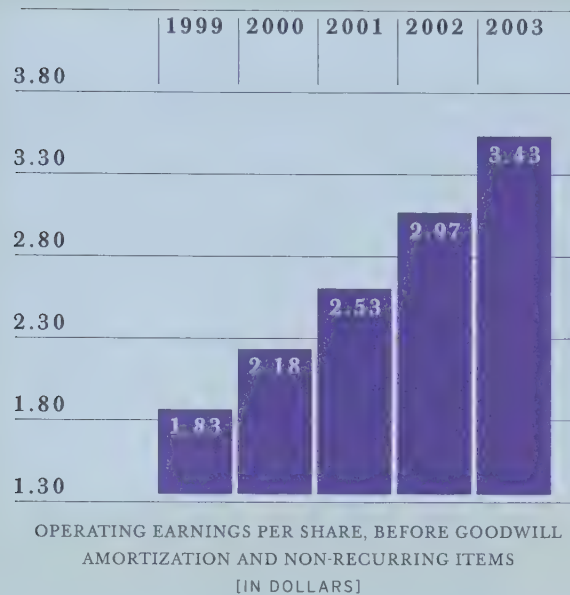
For the twelfth consecutive year, Power Financial Corporation's common share dividend was increased so that at the end of 2003, the quarterly dividend was 32.5 cents per share, compared with 28 cents at the end of 2002 and compared with 4 cents per share at the end of 1991 (adjusted for share splits). The dividends declared on common shares totalled \$1.205 per share in 2003, compared with \$1.04 in 2002, representing an increase of 15.9 per cent.

Power Financial Corporation's principal subsidiaries and affiliate also increased their dividends in 2003. Great-West Lifeco's quarterly dividend was 29.25 cents per common share at the end of 2003, as against 24.75 cents at the end of 2002. The quarterly dividend paid on common shares of Investors Group increased to 25.5 cents from 22.5 cents per share during the year. Also, in 2003, Pargesa Holding increased its dividend per bearer share to SF86 from SF80.

GREAT-WEST LIFECO INC.

Great-West Lifeco reported significant further growth in 2003, reflecting improved operating results and the acquisition of Canada Life Financial Corporation, discussed later in this report. For the twelve months ended December 31, 2003, net income attributable to common shareholders, excluding restructuring charges, was \$1,215 million, an increase of 31 per cent compared with \$931 million for 2002. Net income, after restructuring costs, attributable to common shareholders, was \$1,195 million for the twelve months of 2003. The results of Canada Life Financial Corporation are included from July 10, 2003.

POWER FINANCIAL CORPORATION



Great-West Lifeco's return on common equity, excluding restructuring costs, was 20.7 per cent for the year 2003, among the highest for a Canadian financial services company.

Canada/Europe consolidated net earnings of Great-West Lifeco attributable to common shareholders for the twelve months ended December 31, 2003 increased 43 per cent to \$629 million, compared with \$441 million at December 31, 2002.

The increase was due to both strong operating earnings from Great-West Life and London Life, as well as the inclusion of Canada/Europe results for Canada Life Financial Corporation from the date of acquisition – July 10, 2003 – which represented earnings of approximately \$124 million, net of related financing costs.

In the United States, Great-West Life & Annuity Insurance Company's consolidated net earnings for 2003 increased 21 per cent to \$593 million from \$490 million in the previous year.

The increase was primarily related to favourable results in Great-West *Healthcare*SM and Financial Services for Great-West Life & Annuity Insurance Company, as well as the inclusion of the United States operations of Canada Life Financial Corporation from the date of acquisition – July 10, 2003 – which represented approximately \$45 million.

INVESTORS GROUP INC. AND MACKENZIE FINANCIAL CORPORATION

Net income attributable to common shareholders reported by Investors Group for the year ended December 31, 2003, excluding the reversal of restructuring costs of \$15.6 million after tax related to the Mackenzie acquisition, the non-cash income tax charge of \$24.8 million related to the impact of increases in Ontario income tax rates on the future income tax liability

related to indefinite life intangible assets, and a dilution gain of \$14.8 million recorded in the third quarter resulting from the reduction in the company's percentage ownership of Great-West Lifeco Inc., related to Great-West Life's acquisition of Canada Life, was \$534 million compared with \$491 million in 2002.

Net income attributable to common shareholders for the year ended December 31, 2003, including the reversal of restructuring costs, the non-cash income tax charge and the dilution gain noted above, was \$539 million.

Investors Group's gross revenues for the year ended December 31, 2003 were \$1,874 million, compared with \$1,940 million last year. Operating expenses were \$1,030 million for the twelve months in 2003, compared with \$1,112 million in 2002.

Mutual fund assets under management at the end of the year totalled \$75 billion, compared with \$68 billion at December 31, 2002.

Investors Group's return on average common equity for 2003 was 18.9 per cent, compared with 19.2 per cent in 2002, excluding the restructuring reversal, special income tax charge and dilution gain.

Mutual fund sales through Investors Group's own consultant network were \$4.0 billion, compared with \$4.9 billion in 2002. Net redemptions were \$839 million, compared with \$109 million in the previous year.

Mackenzie's Canadian operations reported mutual fund sales of \$5.3 billion, compared with \$6.0 billion in the prior year. Mutual fund net redemptions were \$69 million, compared with net sales of \$288 million in 2002.

PARGESA HOLDING S.A.

Power Financial, together with the Frère group, holds a 54.4 per cent equity interest in Pargesa Holding S.A. In 2003, Power Financial's share of net operating earnings of this European affiliate was \$88 million, as compared with \$80 million in 2002.

The financial results and operations of Great-West Life, Investors Group and Pargesa are discussed at greater length in the section of this report entitled *Management's Discussion and Analysis of Operating Results* and in the pages dedicated to each of the major operating companies.

GROUP DEVELOPMENTS

On February 17, 2003, Great-West Lifeco announced it had entered into a definitive agreement with Canada Life Financial Corporation to acquire 100 per cent of the outstanding common shares of Canada Life Financial. The Board of Directors of Canada Life Financial agreed to recommend that Canada Life Financial shareholders approve the transaction, valued at \$44.50 per Canada Life Financial common share, representing an aggregate transaction value of \$7.2 billion at the time of the announcement. The transaction, a capital reorganization, was approved by 99.4 per cent of the Canada Life Financial shareholders and closed on July 10, 2003, following the receipt of regulatory approvals.



To support the transaction, Power Financial invested \$800 million to purchase 21,302,523 common shares of Great-West Lifeco from treasury through a private placement. Investors Group also invested \$100 million in the transaction by purchasing 2,662,690 Great-West Lifeco common shares from treasury. Between mid-April and July, a wholly owned subsidiary of Power Financial purchased common shares of Great-West Lifeco and Canada Life Financial on the open market. The shares of Canada Life Financial were subsequently tendered into the acquisition, with the result that the subsidiary received common and preferred shares of Great-West Lifeco, as well as cash. Power Financial now holds, directly and indirectly, a 72.9 per cent effective economic interest in Great-West Lifeco.

In March 2003, Power Financial issued \$200 million of non-cumulative perpetual and \$150 million of non-cumulative 10-year “soft retractable” preferred shares. These two issues consisted of 8,000,000 6.00% Non-Cumulative First Preferred Shares, Series I and 6,000,000 4.70% Non-Cumulative 10-year First Preferred Shares, Series J, at a price of \$25.00 per preferred share. The Corporation also issued \$250 million aggregate principal amount of 6.90% unsecured 30-year debentures due March 11, 2033 at a price of \$998.24 per \$1,000 of debentures. The net proceeds of these offerings were used to supplement the Corporation’s financial resources and for general corporate purposes, and to assist the Corporation in the financing of the acquisition of Canada Life Financial Corporation by Great-West Lifeco.

The Corporation redeemed all 6,000,000 of its Non-Cumulative First Preferred Shares, Series B on May 30, 2003 for a cash redemption price of \$25.00 per share and an aggregate cost of \$150 million.

OUTLOOK

Once again, the companies in the Power Financial group have provided their shareholders with superior financial results.

The acquisition of Canada Life by Great-West in 2003 was an important step toward achieving the goals shared by our group financial services companies: to increase our distribution reach by adding new distribution channels; to lower “manufacturing” costs by combining operations and books of business; to focus on the sale and distribution of value-added products with above-average growth potential; and to strengthen our base in Canada while adding significantly to our international earnings.



Consolidation has been underway for several years in Canada's financial services sector. Your Corporation has played a leading role, making three acquisitions in less than six years for \$14.5 billion. As a result, Investors Group is the largest in its field by a wide margin, and Great-West Life is the sixth largest North American life insurance company by market capitalization.

Great-West Life, London Life, Canada Life, Investors Group and Mackenzie Financial comprise one of the leading networks for the delivery of financial products and services in Canada. Great-West Life is a leading life and health insurer and, together with its subsidiaries, London Life and Canada Life, serves the financial security needs of more than twelve million Canadians. Investors Group and Mackenzie Financial together comprise Canada's largest manager and distributor of mutual funds with over two million clients. In the United States, Great-West Life & Annuity is focused on providing a broad range of health coverage, insurance, and retirement saving products and services to selected markets. And in Europe, the Pargesa group includes interests in four prominent operating companies with well-established franchises and prospects for continued growth.

We believe that a strong foundation has been built and we are encouraged by the record results achieved in 2003.

The Directors of Power Financial wish to express their appreciation to the officers, employees and representatives of the companies in the Power Financial group for their contribution to the group's success during the past year. We thank in particular the clients of our financial services companies for the confidence they have placed in our group. And we thank our shareholders for their continued support.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "Paul Desmarais, Jr.", with a horizontal line underneath.

Paul Desmarais, Jr.
Chairman of the Board

A handwritten signature in dark ink, appearing to read "Robert Gratton", with a horizontal line underneath.

Robert Gratton
President and Chief Executive Officer

April 2, 2004

GREAT-WEST LIFECO

Great-West Lifeco owns Great-West Life, London Life and Canada Life, which together constitute the leading Canadian insurance organization.

In the United States, Great-West Life & Annuity and Great-West HealthcareSM are leaders in their niche markets.

In Europe, Canada Life has substantial life insurance operations and is a market leader in the United Kingdom group life and health business.

Great-West Lifeco's goal is to provide superior long-term returns to shareholders.

22.8%
fifteen-year annual compound returns
to shareholders

\$1.1 billion to \$22.7 billion
fifteen-year growth in market capitalization

\$2.4 billion
aggregate dividends paid
to shareholders over fifteen years

GREAT-WEST LIFECO

Great-West Lifeco Inc. (Lifeco) is a financial services holding company with interests in life and health insurance, investment and retirement savings and reinsurance businesses, primarily in Canada, the United States and Europe.

The company has operations in Canada, the United States, Europe and other international locations, through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life) and Great-West Life & Annuity Insurance Company (GWL&A). Lifeco holds a 100 per cent interest in Great-West Life and GWL&A. Great-West Life indirectly holds 100 per cent of London Life and Canada Life.

Lifeco and its companies have more than \$159 billion in assets under administration.

LINKING GROWTH AND PERFORMANCE

In 2003 another major milestone was achieved in the long history of the Great-West Life group of companies, with the acquisition of Canada Life Financial Corporation, which was completed on July 10.

Canada Life has a proud history as Canada's first and oldest insurer and we are pleased to welcome them to our group of companies. The addition of Canada Life's business strengthens Lifeco's position as one of the leading financial institutions in the Canadian market, enhances its position in the United States, and gives the company a significant foothold from which to grow in Europe.

Lifeco recorded another very strong year in 2003. Earnings attributable to common shareholders, excluding restructuring costs, exceeded \$1.2 billion in 2003, an increase of 31 per cent over 2002. On a per common share basis, this equates to \$2.998 per share, an increase of 18.5 per cent over 2002. The Canada Life acquisition contributed approximately \$0.137 per common share to earnings, which represents 4.8 per cent accretion. The favourable result also derives from earnings growth in both of Lifeco's operating subsidiaries – Great-West Life and GWL&A.

Return on common shareholders' equity, excluding restructuring costs, was 20.7 per cent for the twelve months ended December 31, 2003. The company's return on equity would rank among the highest in the financial services industry in North America. During the year, dividends to common shareholders were increased for the eleventh consecutive year, producing a compound average annual growth rate of 20 per cent. Total assets under administration grew to more than \$159 billion.

During 2003, as a result of the acquisition of Canada Life, the long-term debt ratings assigned to Lifeco and the financial strength ratings assigned to Great-West Life, London Life and GWL&A by A.M. Best Company, Moody's Investors Service and Standard & Poor's Ratings Service were lowered by one rating notch. The Moody's and Standard & Poor's ratings were placed on negative outlook. The financial strength ratings assigned to Canada Life were reaffirmed by the major rating agencies, with the Moody's and Standard & Poor's ratings being assigned a negative outlook. After these rating actions, the companies all continued to hold strong ratings from the major rating agencies.

Lifeco made significant progress in integrating Canada Life's operations in Canada and the United States in 2003. It is anticipated that integration activities will be substantially completed in 2004.

In 2003, consistent with the company's long-term strategic focus on core businesses, a number of small business units were sold. They include London Life's Lifestyle Retirement Communities Ltd. and Canada Life's Puerto Rico business. Additionally, agreements were reached to sell Canada Life's U.S. Virgin Islands group life, disability and dental insurance and health operations and its Bahamas and Cayman Islands life and health insurance business. Early in 2004, an agreement was reached to sell Canada Life's U.S. group life, disability and dental insurance business. The sale of these businesses will allow the companies to continue to focus on and invest in its core businesses.

The acquisition of Canada Life not only enhances the competitive position of the company in the markets in which it operates, but also augurs well for future expansion. The company will continue to look for expansion opportunities in Canada, Europe and the United States.

GREAT-WEST LIFE | LONDON LIFE | CANADA LIFE

C A N A D A

The Great-West Life Assurance Company, together with London Life, work towards the well-being of the nation's leading financial institutions. They offer the industry a range of services and planning, as well as a broad portfolio of products and services, as well as business insurance and risk solutions representing an additional \$1 billion Canadian.

These products, services and solutions are provided through the Great-West Life network of advisors, brokers and intermediaries representing over 100,000 independent agents through London Life's 2,000 member financial advisors.

Canada Life's core business products are distributed through a network of independent advisors and brokers, as well as through general agents.

Over \$83 billion

in assets under administration

Serves the financial security needs of more than

12 million Canadians

3.3 million

active policyholders

C A N A D A



RAYMOND L. McFEETORS
PRESIDENT AND CHIEF EXECUTIVE OFFICER,
GREAT-WEST LIFE, LONDON LIFE
AND CANADA LIFE

For well over a century, Great-West Life has been helping Canadians plan for their financial security. By being there with the solutions, Great-West Life has grown into a leading source of insurance and investment products and services for individuals, families and organizations across Canada.

Great-West Life's results in 2003 continue to underscore the value of its extensive distribution network for the company and for its clients. Through these distinct channels, the company offers competitive products and expertise to help clients develop long-term financial plans, and to help large and small organizations develop effective benefits solutions.

Overall, Great-West Life recorded another very strong year in 2003. Total net income increased 73 per cent over 2002, reflecting performance in the company's lines of business as well as the addition of Canada Life's business. Participating policyholder net income of Great-West Life and its subsidiaries London Life and Canada Life grew 25 per cent before dividends in 2003, to \$763 million. During the year, Great-West Life and its subsidiaries paid \$666 million in policyholder dividends, an increase of 10 per cent.

When Canada Life business is included, total premiums and deposits increased by \$3.8 billion over 2002, before bulk reinsurance transactions, and total fee income increased by \$240 million. Bulk reinsurance transactions in 2003 resulted in a reduction of \$6.3 billion of revenue and a corresponding reduction in benefits paid or credited to policyholders. Total assets under administration more than doubled, to over \$115 billion, including \$53.2 billion attributable to Canada Life’s operations in Canada and Europe.

CANADA LIFE In 2003, Great-West Life made significant progress in integrating Canada Life’s Canadian operations, a process that will be substantially completed in 2004. For Group life and health insurance operations, the company is consolidating business under the Great-West Life brand and systems, building on its existing strengths in this market. The Canada Life brand and distribution channels will continue to be distinct and offer important advantages in key markets, such as individual insurance, investments and creditor insurance.



As well, to enhance efficiency and cost effectiveness across its operations, Great-West Life is consolidating its investment, information services and corporate support functions, as well as the administrative operations within each of its lines of business. Much of this work was completed in 2003.

Great-West Life gained a significant presence in Europe with the acquisition of Canada Life, which ranks among the leading insurers in the United Kingdom, Republic of Ireland and Germany. In 2003, the company continued to focus on Canada Life’s core European businesses: individual and group insurance and wealth management. A business efficiency program was established to focus on service and on cost reduction through process improvements.



The acquisition of Canada Life strengthened Great-West Life's position as one of the leading providers of employee life, health and retirement benefit plans in Canada.

Great-West Life's Group Life & Health Insurance division produced significant year-over-year gains in financial results in 2003, while maintaining strong service levels for clients. Including Canada Life business, premium income for the year increased 25 per cent to nearly \$4.5 billion, before bulk and associated ongoing reinsurance transactions. This included growth of nearly 32 per cent in the company's small- and mid-sized case target markets.

While total sales of group insurance plans were level on a year-over-year basis, sales from new clients increased sharply. This was offset by a reduction in sales of plan improvements to existing clients. In the company's small- and mid-sized case target markets, overall sales showed growth of 8 per cent over 2002, complemented by strong persistency, an indication of client satisfaction with Great-West Life's group products and services.

Serving the needs of more than 34,000 group insurance plan sponsors gives Great-West Life the scale and depth of expertise to offer effective benefit plan solutions at competitive costs. One example is Great-West Life *GroupNet*™ Online Services for Plan Members, launched January 1, 2004. This web-based service gives plan members access to an array of online self-service options, including coverage information, claim status, personalized claim forms, a Health & Wellness Library and answers to frequently asked questions. As group plan members find what they need online, plan sponsors and administrators will benefit from a reduction in administrative workload. This service complements Great-West Life's industry-leading *GroupNet*™ for Plan Sponsors, which offers web-based benefits administration services for sponsors of group insurance plans.

Also in 2004, Great-West Life will introduce a group critical illness product. This new product combines competitive features of Canada Life's group critical illness insurance with Great-West Life's extensive experience in group disability insurance and in individual critical illness coverage. The company believes this offers an excellent solution to a growing need identified by group clients to provide critical illness coverage for their plan members.

With Great-West Life's extensive distribution capability, low cost, and the expanded business base resulting from the acquisition of Canada Life, the company is in an excellent position to capitalize on opportunities emerging in the Canadian group insurance market place. Great-West Life will take advantage of opportunities being created by new technologies to enhance service to plan sponsors, plan members and its distribution networks while reducing costs.

Canada Life is a recognized leader in the creditor insurance business, with over \$1 billion in annual premium. Together with Canada Life, Great-West Life now has a leading position in this market segment. The company will build on Canada Life's expertise and established reputation in this market, maintaining the Canada Life brand and product offerings and consolidating Great-West Life's creditor administration operations with those of Canada Life. A major focus of 2004 will be the development of new system technologies to enhance its administrative support and service for group creditor insurance clients.

In the company's Group Retirement Services division, the integration and consolidation of Great-West Life and Canada Life businesses saw business grow to a total of 12,000 group retirement and savings plans under administration, \$22 billion in assets and \$3.5 billion in annual deposits. Great-West Life now offers the largest network of group retirement specialists in Canada, located in 13 cities nationwide. In 2003, sales of group retirement and savings plans increased 50 per cent over 2002 levels, when Canada Life sales are included.

The company's award-winning plan member communication and education materials continued to be a focus in 2003. For example, the company enhanced plan member enrollment material to include interactive educational elements.

Canada Life holds a leading position in the large-case capital accumulation market, while Great-West Life is a leader in the small- and medium-size markets. Together, the joint Canada Life and Great-West Life/London Life organization is a leader in the capital accumulation market. In 2003, an agreement was put in place with a third-party provider which will enable Great-West Life to provide enhanced levels of service to sponsors of capital accumulation plans offered by the Group Retirement Services division. Using innovative technology, the company now offers plan sponsors the option of providing their employees with stock incentive plans. The web-based system provides record keeping, reporting and employee access for these types of plans. The ability to offer a full range of capital accumulation plan products, combined with unique positioning in all size markets, positions the company very well for growth.

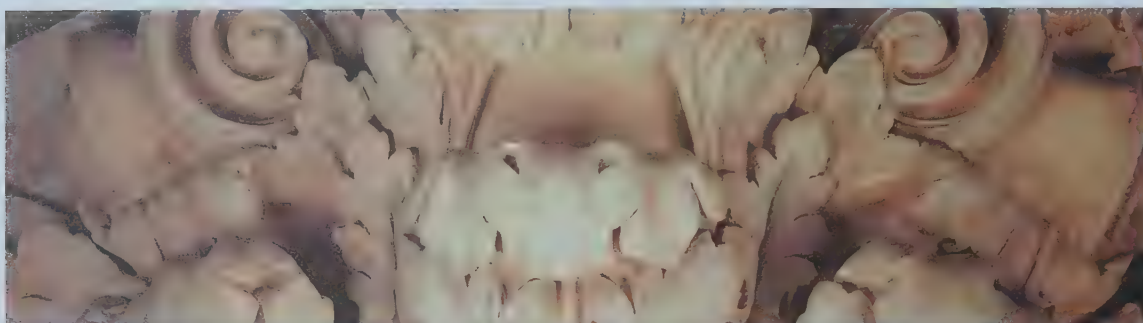
HELPING CLIENTS WITH PERSONAL FINANCIAL SECURITY PLANS

The value offered to clients by Great-West Life's network of financial security advisors and independent brokers and consultants is a key factor behind the company's performance. Their expertise, combined with Great-West Life's broad portfolio of competitive insurance and investment products, helps clients build an insurance and investment portfolio targeted to meeting long-term financial security needs.

The acquisition of Canada Life and the strategies implemented by Great-West Life over the past few years have positioned the company with an unmatched distribution platform and places it among the leaders in the Canadian individual insurance market place. The company's array of distribution channels now includes *Freedom 55 Financial*[™] exclusive financial security advisors, affiliated financial security advisors and specialist brokers with Great-West Life, as well as brokers associated with managing general agents, national accounts, including Investors Group consultants, and direct brokers associated with Canada Life.

Through these distribution channels, the company markets products under the Great-West Life, London Life and Canada Life brands, with strategies designed to meet the unique needs of each distribution channel.

In the investment funds market, Great-West Life, together with its subsidiaries London Life and Canada Life, is a leading provider. The companies offer 56 *Freedom Funds*[™] to



individual *Freedom 55 Financial*[™] clients and 54 segregated funds to individual Great-West Life clients. Canada Life's core segregated fund product, *Canada Life Generations*[™], was relaunched in late 2003 with 54 funds now offered. The company also distributes proprietary and third-party mutual funds through Quadrus Investment Services Ltd., its mutual funds dealer. Quadrus works closely with Mackenzie Financial Corporation, a member of the Power Financial group of companies, which manages Quadrus' administration platform.

The company's focus is on long-term financial security planning, rather than short-term performance. Great-West Life and *Freedom 55 Financial*'s investment planning process includes an asset allocation program to help clients build a portfolio to meet long-term needs through Great-West Life and London Life proprietary segregated funds and Quadrus' proprietary mutual funds. A new suite of asset class funds, supported by an effective asset allocation system, was launched for Canada Life and is expected to increase sales in 2004.

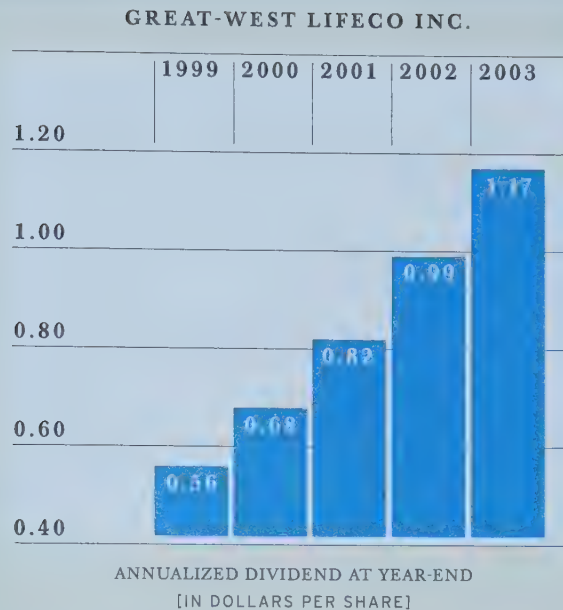




In 2003, net sales of proprietary segregated funds and mutual funds were \$344 million. This was accomplished in an environment where industry net sales of investment funds experienced a loss of \$300 million. Assets under administration for individual retail segregated funds grew 40 per cent over 2002, including Canada Life assets. Excluding Canada Life, segregated fund asset growth, at 14 per cent, paralleled that of the industry.

In the individual insurance business, life insurance sales continued to outpace the industry in 2003. Although life insurance sales remained relatively flat across the industry, the company's individual life insurance sales, including those of London Life, grew modestly. When Canada Life's business is included, new annualized premiums increased by 30 per cent to \$140 million in 2003. Participating insurance sales increased 19 per cent over 2002, as the companies' products continue to appeal to consumers seeking to protect their estates.

The addition of Canada Life's living benefits product line has reinforced Great-West Life's position as a leading provider of living benefits products for Canadians. Sales in the living benefits product lines, which include disability insurance and critical illness insurance, increased 42 per cent over 2002, driven by strong sales of critical illness insurance and the inclusion of Canada Life sales.



Sales of critical illness insurance were \$11 million, an increase of 121 per cent when Canada Life’s business is included. Great-West Life’s critical illness insurance product, *Oasis*[™], first introduced in 2000, has become a market leader. In 2003, the company introduced several enhancements to *Oasis*[™] to strengthen the product offering and provide more options to meet clients’ needs. Canada Life has held a strong position in the critical illness market for a number of years. Canada Life’s sales of *Life Advance*[™] critical illness insurance product were \$9 million, an increase of 69 per cent over 2002.

Disability insurance sales increased 21 per cent to \$23 million in terms of new annualized premium in 2003, including \$3 million in Canada Life sales, in a year when industry sales decreased.

Consistent with the company’s strategy to use technology to enhance the range and quality of services offered, in 2003 Great-West Life introduced *Solutions Banking*[™]. This innovative approach to banking is made available in association with National Bank of Canada, an experienced private-label banking supplier. *Solutions Banking*[™] offers clients a comprehensive range of banking products and services, including chequing and savings accounts, debit and credit cards, online banking, and investment and RRSP loans, to complement the company’s core financial security products.

Later in 2004, Great-West Life and London Life will introduce an advisor portal for their respective distribution channels. This web-based secure site will offer financial security advisors enhanced online information and services, to enable them to better serve their clients. As well, the companies will introduce private wealth counsellors to assist financial security and investment representatives in serving clients in the affluent and established market.

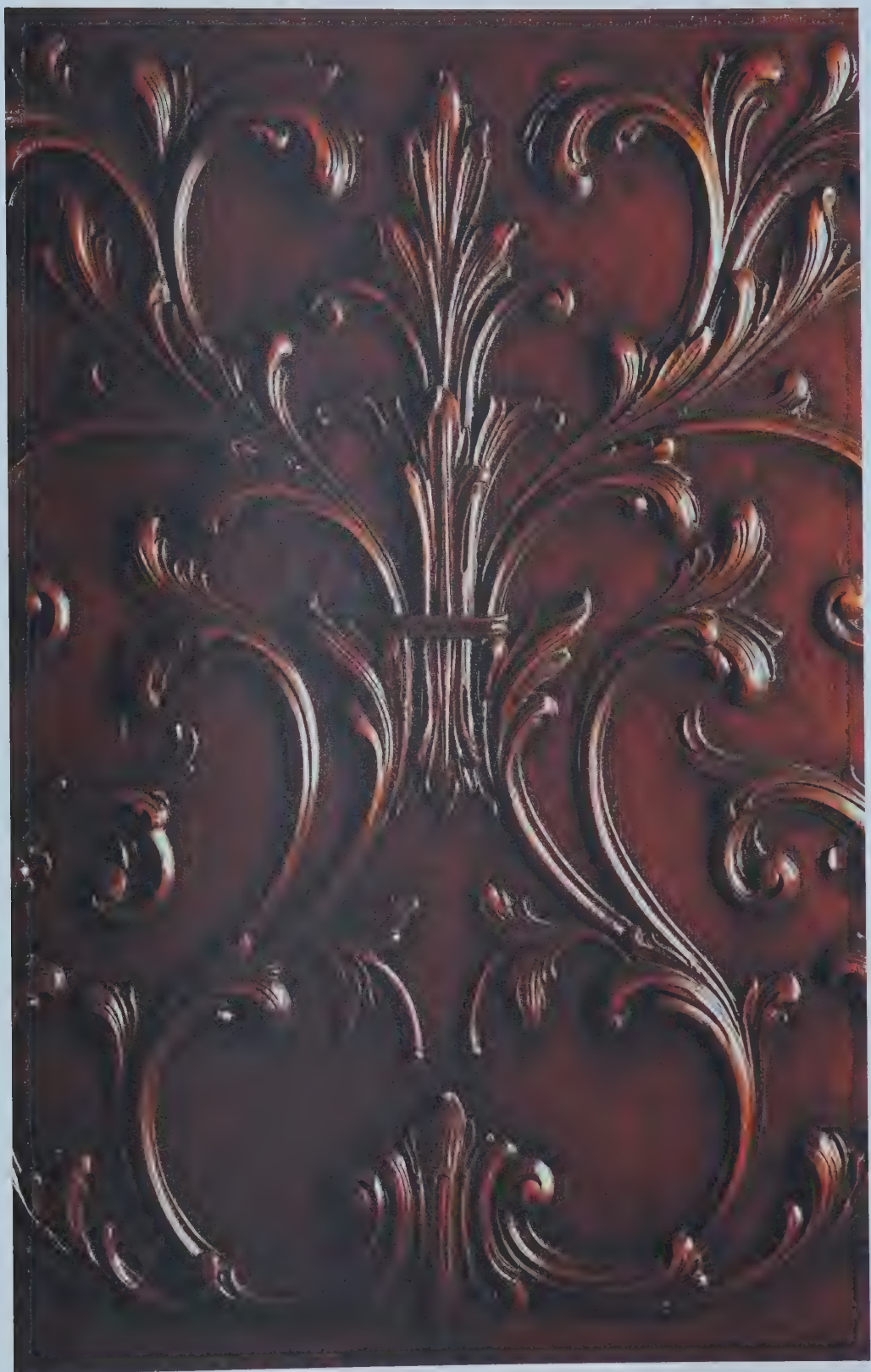
BUILDING IN THE COMMUNITIES WHERE WE LIVE AND WORK

Being there for Canadians is about more than offering financial security products and advice. Through the national *Key to Giving*[™] program on behalf of Great-West Life, London Life, and now Canada Life, the company provides direct financial support to hundreds of charitable, non-profit and community-based organizations across the country. Great-West Life works with organizations recognized for their creativity and initiative to ensure its financial and volunteer support can make the greatest possible impact. The company encourages the volunteer spirit of its staff and financial security advisors. Most importantly, the company focuses on building partnerships for the future, summed up by its philosophy *Stronger Communities Together*[™].

In the year ahead, Great-West Life will continue to build on the strong foundation that has been established in the communities in which it does business. Highlights of this approach to corporate social responsibility and community involvement are available in its upcoming 2003 Public Accountability Statement.

A PROUD HISTORY, A CONFIDENT FUTURE

Canada Life has a proud history as Canada's first and oldest life insurer. The addition of Canada Life enhances Great-West Life's ability to provide its clients with competitive products and services, and augurs well for future expansion.



CANADA LIFE

E U R O P E

Canada Life has extensive operations in the United Kingdom, Isle of Man, the Republic of Ireland and in Australia.

In the UK, the company owned the largest professional group financial wealth investment platform. It is among the top five in the general populationist market. Canada Life offers various and extensive products including the Isle of Man fiduciary services and strongly professional financial solutions primarily in the United Kingdom. It is the largest insurer company in the market.

In the Republic of Ireland, a variety of individual insurance and savings products are distributed through a network of 1,300 independent brokers and 50 sales associates. The German company in the previously mentioned markets distributed through a network of over 1,000 independent brokers.

Over \$28 billion

in assets under administration

3.3 million

individuals covered

\$4 billion

in annual premiums and deposits

CANADA LIFE

E U R O P E

With the acquisition of Canada Life, Great-West Life gained a significant presence in several European markets.

The company's Europe/Reinsurance division is broadly organized along geographically defined market segments and offers a wide range of protection and wealth management products and reinsurance. The division comprises two distinct businesses: Europe, which consists of operating divisions in the United Kingdom, Isle of Man, Republic of Ireland, Germany and around the world; and Reinsurance, which operates primarily in the United States and Europe.

UNITED KINGDOM AND ISLE OF MAN Canada Life ranks among the top 30 life insurance companies operating in the United Kingdom, with strong market positions in several niche areas. The U.K. division operates in three core niche areas within the financial services market. They are individual protection, group insurance and wealth management, which comprises payout annuities and savings products. Customers are serviced almost entirely through independent financial advisors in all these businesses.

The core products offered in the U.K. operations are payout annuities and group insurance that are distributed through financial advisors and pension and benefit consultants.

Earlier this year, the integration of group life and health business acquired in 2002 was completed, positioning the company as a market leader in group life insurance and group income protection (disability) insurance.

In wealth management, part of the U.K. business is run from an Isle of Man company, Canada Life International, which offers mostly savings and retirement products sold through independent financial advisors in the U.K. and in other selected territories. Canada Life International ranks among the largest "offshore" life insurance companies selling into the U.K. market.

Canada Life is well positioned to capitalize on growth opportunities in the changing market place in the United Kingdom. The company has a strong presence in the growing payout annuity market and in the group insurance market, where premium revenue has been increasing steadily and customer retention is a major strategy. The Isle of Man operation is developing well, as Canada Life's offshore wealth management products meet or exceed critical broker expectations, and a multi-fund manager philosophy provides competitive advantage.

REPUBLIC OF IRELAND In the Republic of Ireland, Canada Life ranks among the top five life insurance providers as measured by new business market share. Customers are serviced through a network of over 1,500 independent brokers and 250 sales associates. Its product range includes protection and wealth management products, including life insurance, critical illness insurance, pensions, savings and investments.

Wealth management continues to be an area of strong growth, particularly asset management services offered through Setanta. Setanta was incorporated in 1999 and currently manages the equivalent of \$6 billion on behalf of the Irish and German operations, as well as a portfolio of Great-West Life assets, mainly invested in European equities.

GERMANY Canada Life's German operation is a relative newcomer to the German insurance market. Launched in 2000, the company began with two products, a unit-linked pension plan and a basic disabilities plan. In 2003, Canada Life completed the acquisition of a book of German life business that makes the company one of the top five companies in the broker unit linked market. More importantly, it positions Canada Life to benefit from strong growth in the private pensions market. Its products are distributed through over 7,000 independent brokers.

REINSURANCE

With the acquisition of Canada Life, Great-West Life brings together two established but diversified reinsurance businesses, Canada Life Reinsurance and London Reinsurance Group, which provide platforms for strong growth in reinsurance in the U.S. and Europe.

London Reinsurance Group, a wholly owned subsidiary of London Life Insurance Company, is a global reinsurance provider serving niche markets in the United States and Europe. The company maintains a diversified book of life, property and casualty, and annuity business through subsidiaries in the U.S., Ireland and Barbados. Founded on a base of solid client relationships, it provides a variety of traditional and non-traditional reinsurance solutions to assist clients in managing their financial challenges.

Canada Life Reinsurance is a highly respected provider of life reinsurance, working with clients comprising some of the most successful direct writers of individual life insurance in the U.S. Canada Life Reinsurance has achieved an important market position, the result of prudent business practices and systems, coupled with a strong client service ethic. Business is largely transacted directly with clients, with small amounts of business coming through the services of professional reinsurance intermediaries.



GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

UNITED STATES

Great-West Life & Annuity Insurance Company serves customers through the United States only through health, life and financial products, life, annuities, marketed through brokers, consultants, and group representatives, and through partnerships only on financial products.

Headquartered in Denver, Colorado, GWL&A provides life, health, annuity, life insurance, group-term life insurance, savings plans for government, health care, and individual companies, and financial and other, and life insurance products for individuals and businesses. GWL&A provides products and services to U.S. consumers and financial management products to investors.

Over \$47 billion

in total life insurance assets

4.2 million

U.S. customers

Number 1

in corporate and individual life

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

U N I T E D S T A T E S



WILLIAM T. McCALLUM
PRESIDENT AND CHIEF EXECUTIVE OFFICER,
GREAT-WEST LIFE & ANNUITY
INSURANCE COMPANY

In a year that presented continuing challenges for American business, Great-West Life & Annuity Insurance Company (GWL&A), Lifeco's operating company in the United States, built on its base in health care and retirement services, while adding to its individual life business with the acquisition of Canada Life's U.S. operations.

Despite a struggling economy and turbulent financial markets that restrained growth and left corporations and individuals alike uncertain about their prospects, GWL&A posted record earnings in its Healthcare Division and good performance in the Financial Services Division. The Investment Division demonstrated its disciplined approach to credit risk management as the company maintained a very strong balance sheet.

GWL&A's total assets under administration grew 13 per cent in 2003, aided by the U.S. operations of Canada Life. An 18 per cent decrease in premiums and deposits reflected the impact of U.S. translation rates, a contraction in medical membership due to pricing adjustments, along with a sluggish economy, and lower segregated fund deposits as consumers continued to be wary of equity markets. Expenses declined, primarily the result of continuing process improvements in the Healthcare segment and of consolidation of duplicate functions from the General American business acquired in 2000.

As a U.S. leader in the health care self-funding market, GWL&A recognized the need to combat soaring health care expenses for employers with new plan designs that involve consumers in decision making and integrate effective medical outreach programs. The Healthcare Division strengthened its medical management programs with initiatives that brought industry recognition and a national disease management award. It also introduced comprehensive consumer education tools to help members take control of their health and improve their quality of life, as well as reduce costs for businesses.

GWL&A solidified its premier position in the retirement services sector with strategic acquisitions and partnerships, exceptionally high retention rates on public/non-profit plan contracts, and the addition of a fourteenth state government client. Gains in the Financial Services Division's administration and record-keeping client base, including corporate, public/non-profit, and institutional accounts, increased its number of pension plan participants to 2.3 million. A national reputation for timely, accurate plan record keeping and strong service garnered industry honours.



Lifeco's acquisition of Canada Life Financial Corporation brought GWL&A a significant number of individual life and annuity customers. Integrating that business, GWL&A consolidated duplicate responsibilities and concentrated efforts on current Canada Life customers, discontinuing new sales after determining the business did not fit its long-term strategy.

With this steadfast focus on core proficiencies, GWL&A continues to post solid results while positioning itself for the future with forward-thinking initiatives.

HEALTHCARE DIVISION

Providing employee benefits products nationwide, the Healthcare Division specializes in self-funding and creative health care management solutions. Its product line includes traditional group health plans, consumer-driven plans, dental and vision plans, life insurance benefits, and short- and long-term disability coverage, as well as flexible spending account administration. Its network of 515,000 providers and 5,300 hospitals serves nearly 5,000 employer groups and 1.9 million medical members throughout the United States.



A year of complex challenges also brought exciting changes and significant milestones as the division worked to define and build a strong foundation for success. While pricing actions, economic uncertainty, and a reduced employee base for existing group customers resulted in a membership decline, the division put into place specific strategies to promote membership growth in 2004.

As part of a revitalized business strategy, the division refined its focus on profitable growth within its target markets and realigned its sales force to support the differing expectations of those segments. This meant building upon strengths in select accounts (50–250 employees), increasing focus on mid-market business (250–2,500 employees), and enhancing capabilities for future growth in national accounts (2,500+ employees).

Another important step in building a strong foundation was to better define the division internally and to target audiences. It accomplished this goal by consolidating its multiple business entities into a single, consistent identity – Great-West *Healthcare*SM. More than a name change, the new brand incorporates long-standing ideals of trust and creativity into one voice and one look. The Great-West Healthcare brand was launched with event sponsorships and a national advertising campaign directed to brokers, consultants and health care decision makers.

Another major initiative expanded aggressive product development efforts to confront escalating health care costs. Foremost on this front was the Great-West Healthcare Consumer AdvantageSM plan, designed to save employers up to 15 per cent on medical premiums, compared with a traditional plan design.

This industry-first, consumer-driven tiered benefit plan covers preventive care at 100 per cent and provides high-level coverage for medically complex or catastrophic services. To give members the information and options they need to make financially and medically sound treatment choices, Great-West Healthcare provides a 24-hour nurse hotline and a wealth of online tools, including an interactive wellness system, a prescription drug comparison tool, and the *CareCompare*SM database for researching hospital performance.

Continuing a focus on the consumer, the division's Health Reimbursement Account (HRA) allows employers to shift from a defined benefits concept to a defined contribution philosophy that engages members in making cost-effective health care decisions. Through this plan, employers contribute a set annual amount for each employee to spend on health care expenses. Funds remaining at the end of the year can be rolled over for future use. Another first in the market, Great-West Healthcare's concurrent payment HRA shares expenses equally between the member and the employer-sponsored HRA from the first dollar of coverage.

Nationally recognized medical management programs complement each type of health plan the company offers. The Medical OutreachSM program features care management, disease management, and online health management tools to help businesses realize significant annual medical cost savings.

Great-West Healthcare's disease management program serves more than 100,000 enrolled members with asthma, diabetes, cardiac and other conditions. This program has led to an increase in appropriate physician office visits and pharmacy use while decreasing hospital stays among program participants, resulting in average medical savings over \$2,000 per year for enrolled members with diabetes and cardiac conditions.

In 2003, the division strengthened its disease management outreach with the addition of oncology and neonatology programs, earning industry honours for its suite of programs as the Best Disease Management Program for a National Preferred Provider Organization. Presented by the Disease Management Association of America, the award acknowledged the company's continued results and commitment to treating members with chronic diseases, as well as innovative programs introduced during the year. Great-West Healthcare will augment its disease management offerings in 2004 with the introduction of pain management, depression management, and other targeted programs.

The division also completed a number of compliance initiatives, including privacy and electronic transaction requirements associated with the administrative simplification provisions of the federal *Health Insurance Portability and Accountability Act*.

While building a strong foundation was the guiding force in 2003, Great-West Healthcare also recognized the need to manage expenses. The division consolidated regional functions into corporate headquarters to reflect increased operating efficiencies, and implemented targeted reductions to better align its workforce with current membership.

Looking to 2004, the division believes its emphasis on new product design and ongoing process improvements will give it the edge in helping customers meet the benefit challenges of tomorrow.

FINANCIAL SERVICES DIVISION

GWL&A's Financial Services Division provides employer-sponsored defined contribution retirement plans, deferred compensation plans, and 401(k) plans for the government, health care, educational, corporate and institutional markets throughout the United States. It also provides customized life insurance and annuity products for individuals and corporate executives. Through FASCorp, it offers private-label record-keeping and administrative services for other providers of defined contribution plans, as well as GWL&A and its affiliates.

The division saw a year of milestones and sustained client growth in 2003. Canada Life's U.S. life insurance and annuity customers were integrated into GWL&A's operations, building a base for enhanced earnings. Meanwhile, initiatives undertaken by the units within the division laid the foundation for continued success in 2004.

The Retirement Services unit reinforced its standing as a leading provider of group retirement products and services in the United States. Bringing this entire suite under one umbrella, the division introduced the Great-West Retirement ServicesSM brand and name. This unit, which serves institutional clients through the company's FASCorp subsidiary, as well as private, public and non-profit employers, brought GWL&A recognition as "2003 Record Keeper of the Year" from *Defined Contribution News* and earned a ranking as the nation's seventh largest defined contribution record keeper, based on participant count by *Plan Sponsor* magazine.

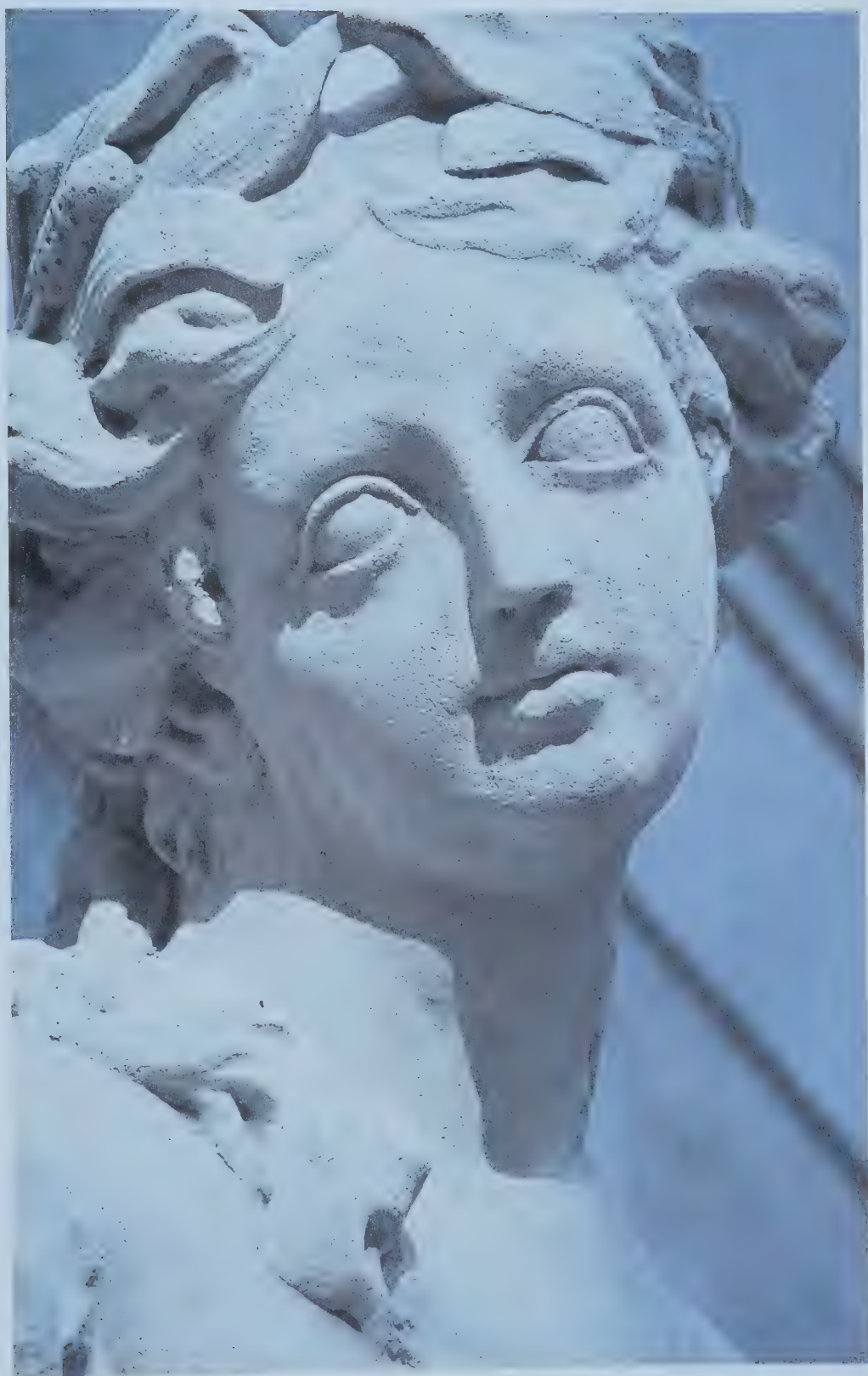
Strong corporate 401(k) sales demonstrated the success of the company's creation of a sales team specializing in selling 401(k) plans through brokers. The Retirement Services unit also completed the transition of its service team to a focused 401(k) client relationship manager design.

Building on this reinforced customer service foundation, the company pursued strategic opportunities in the 401(k) market place. GWL&A acquired the group retirement



business of Federated Insurance Companies, culminating in a smooth conversion of plan and participant accounts that kept investors in the market throughout. Nearly 87 per cent of Federated's group retirement customers chose to transition to GWL&A rather than move their business to another provider, an exceptional retention rate.

The Retirement Services area also established a strategic relationship with Wells Fargo & Co. GWL&A announced the acquisition of EMJAY Corporation, a subsidiary of Wells Fargo specializing in 401(k) administration and service. The conversion of plans in 2004 will be accompanied by the introduction of a new, small plan 401(k) product. As a new institutional customer, Wells Fargo will use FASCorp's private-label and co-branded record-keeping services for 401(k) plans.



Cementing GWL&A's position as the No. 1 provider of defined contribution services to state governments, the government markets unit added the Commonwealth of Pennsylvania as its fourteenth state customer. With four of America's five largest cities – New York, Los Angeles, Houston, and Philadelphia – among its clients, the company is also a leading provider for cities, counties, and political subdivisions, with 1,300 plans in this market. Major new clients for 2003 also included the New York Metropolitan Transit Authority, the West Virginia Teachers' Defined Contribution Plan and the Indiana Public Employees' Retirement Fund for elected officials.

In the health care institutions retirement market, an open architecture approach allowing plan sponsors to take charge of the design and objectives of their retirement plans led to outstanding retention in 2003. Of the 23 plans up for review, 100 per cent of contracts were renewed for a term of no less than three years. New customers in this market included Via Christi Health System, a major health care provider in the American Midwest.

GWL&A's registered investment advisor subsidiary, Advised Assets Group, LLC (AAG), offers investment advice in partnership with Financial Engines Advisors LLC to qualified retirement plan participants. AAG also provides investment performance reports to plan sponsors. New AAG clients in 2003 included the states of Louisiana and Pennsylvania, representing 88,000 participants collectively. Both entities enhanced their retirement plans with online investment advice for participants.

A leading provider of record-keeping and administrative services for the defined contribution and institutional markets, FASCorp capitalized on its flexibility and operating scale to secure a record number of new institutional client contracts in 2003. GWL&A realized growth in plan and participant counts of existing partners as well, while a resurgence of the stock market contributed to an increase in assets administered.

With a new strategy to market FASCorp's record-keeping services in conjunction with Great-West Retirement Services, GWL&A offers an expanded package of services to current institutional customers, as well as prospective clients. The fully bundled product includes mutual funds, annuity products, relationship management, compliance services, investment advice in conjunction with AAG, and marketing, educational, and enrollment services to complement state-of-the-art record-keeping services. In addition, the company provides strategic guidance to institutional partners to help them add new plans and participants to these platforms.



Industry mergers and acquisitions in the coming year are likely to redraw the retirement services landscape. Growing relationships with American Funds and Wells Fargo demonstrate FASCorp's ability to partner with premier firms in this new competitive environment.

FASCorp's private-label record-keeping capabilities for large financial institutions, as well as co-branded and private-label services for defined contribution plans, present a distinct market advantage over competitors. As many investment providers explore the outsourcing of record-keeping functions, GWL&A is in a unique position to capitalize on market opportunities.

In the individual market sector, the acquisition and integration of Canada Life's U.S. business added to GWL&A's client base and balance sheet and paved the way for enhanced earnings through economies of scale.

The business-owned life insurance (BOLI) area continued its core distribution partnership with Clark Consulting, with a focus on the general corporate and financial institution benefit plan market. The company introduced its BOLI product into the small-case non-qualified deferred compensation market. BOLI assets remained stable in 2003 amid a challenging economic setting and uncertain legislative environment.

In the education market, GWL&A continues to focus on value-based retirement solutions for educators through a low-cost mutual fund retirement savings program.

Throughout the company, innovative products, enhanced customer relationships, and focused sales and service strategies set the stage for continued growth in 2004. A commitment to fundamentals and a strategic blend of products and distribution channels allow GWL&A to deliver solid overall performance and position the company for continued success.

IGM FINANCIAL INC.*

I N V E S T O R S G R O U P I N C.*

IGM Financial owns Investors Group and Mackenzie Financial. Together these companies are Canada's largest mutual fund organization managing almost twice the assets of their next competitor. They hold a 17 per cent market share, with assets of \$78 billion.

IGM Financial's goal is to provide superior long-term returns to shareholders.

23.5%

fifteen-year annual compound returns
to shareholders

\$400 million to \$9.4 billion
fifteen-year growth in market capitalization

\$1.3 billion
aggregate dividends paid
to shareholders over fifteen years

* Investors Group has sought shareholder approval to change its name to IGM Financial Inc. at a meeting on April 30, 2004.

INVESTORS GROUP

Investors Group serves the personal financial needs of 3 million customers.

The Investors Group portfolio includes 347 mutual funds, structured funds, and managed accounts. The portfolio is diversified globally, invests in Group's own products, and offers consistently high-quality service from the company's 14,000+ advisors across 10 countries.

Investors Group also offers insurance products and investments, as well as banking and wealth management services.

Over 1 million

Customer Assets

\$43 billion

Assets of Funds

3,200

Investors Group employees

INVESTORS GROUP



R. JEFFREY ORR
PRESIDENT AND CHIEF EXECUTIVE OFFICER,
INVESTORS GROUP INC.

Financial markets around the world recorded sharply improved performance over much of the year, after an extended period of weakness. Clients who took a long-term view of their investments these past few years were indeed well rewarded in 2003.

INVESTORS GROUP INC. FINANCIAL RESULTS

The attractive investment returns experienced by clients in 2003 were, however, slow to translate into renewed client confidence. Flows into the company's mutual fund and other asset management products did not begin to show signs of improvement until very late in the year.

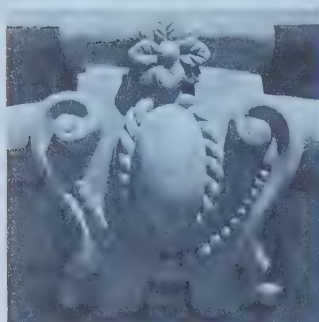
Investors Group Inc. nonetheless recorded another strong year of financial results in 2003. Despite average mutual fund asset levels which were 4.4 per cent lower than in 2002, net income attributable to common shareholders for the year ended December 31, 2003, excluding the items noted below, was \$534 million, compared with \$491 million in 2002. Earnings per share on this basis were \$2.01, compared with \$1.85 in 2002, an increase of 8.6 per cent. Refer to page 95 of the *Management Discussion and Analysis of Operating Results* for an explanation of non-GAAP measures.

Net income excludes:

- a dilution gain of \$14.8 million resulting from the reduction in the company's percentage ownership of Lifeco, related to their acquisition of Canada Life;
- the reversal of \$24.8 million (\$15.6 million after tax) of restructuring costs related to the Mackenzie acquisition; and
- a non-cash income tax charge of \$24.8 million related to the impact of increases in Ontario income tax rates on the future income tax liability related to indefinite life intangibles.

Net income attributable to common shareholders for the year ended December 31, 2003, including these items, was \$539 million and earnings per share were \$2.03.

Lower fee revenue in 2003 was offset by several factors, with lower costs being the most significant of these. The expense performance was the result, in part, of the company's two operating units – Investors Group and Mackenzie – working together to achieve the synergy targets which were established two years earlier at the time of the Mackenzie acquisition. The lower expense levels were also the result of the company's ongoing cost



containment efforts and lower commission levels. Higher net investment income and lower taxes were other factors which contributed to the increase in earnings.

Dividends increased for the fourteenth consecutive year, rising 13 cents to 99 cents per share.

2003 PRIORITIES

Investors Group Inc.'s activities and decision making are guided by a long-term view of its industry and its business. The future prospects for advice-based financial services in Canada are positive, and the company seeks to utilize the combined advantages of Investors Group and Mackenzie, including scale, strong brands, multiple distribution channels and financial strength, to establish and maintain a leadership position well into the future.



A number of important changes and strategic investments were made in Investors Group's business operations to enhance the competitiveness of its products and services. These included:

- improvements to strengthen the competitiveness of Investors Group's consultant and field management compensation, recognition and support, which will enhance retention and recruitment;
- more effective, personalized financial solutions for Investors Group clients through a new strategic investment planning process called *Symphony*TM;
- the introduction of banking products and services for Investors Group in conjunction with National Bank of Canada; and
- an upgrade of the Investors Group *Advantage*TM technology platform for consultants, with new hardware designed to increase productivity.

These enhancements were achieved while Investors Group Inc.'s management and personnel also focused on the three specific priorities for Investors Group and Mackenzie which had been established for the year, being:

- pursuing opportunities created by the Mackenzie acquisition;
- growing the level of assets under management; and
- managing expenses prudently.

MACKENZIE OPPORTUNITIES

Investors Group Inc. surpassed its goal of achieving \$100 million in annual cost and revenue opportunities flowing from the Mackenzie acquisition during the second quarter. Prior to year-end, the company also successfully completed one of the largest projects undertaken as part of the transition process – the move to a single mutual fund unitholder administration system for Investors Group and Mackenzie which preserves the integrity and privacy of each company's client base. This was the single biggest systems conversion ever in the mutual fund industry, and the resulting scale will provide numerous advantages in the years to come.

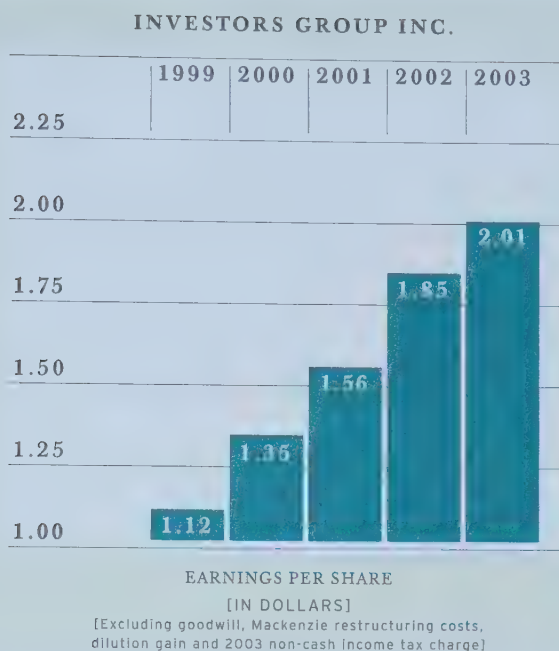
While the targeted synergies have been realized, the company will continue to focus on a number of opportunities between Investors Group and Mackenzie for product and service enhancements and operating efficiencies in a number of areas.

GROWTH IN ASSETS

The strength of the financial markets resulted in higher mutual fund assets, on a consolidated basis, at the end of 2003 versus the levels at the start of the year. Combined mutual fund assets between Investors Group and Mackenzie were \$74.7 billion at year-end, up 9.1 per cent.

EXPENSE MANAGEMENT

The company continued to focus on expense management measures beyond the cost-reduction opportunities created by the transition activities. These measures were designed to gain efficiencies and reduce expenditures without affecting the quality of service provided to clients, consultants and advisors. Through prudent management, non-commission expenses between Investors Group and Mackenzie were reduced by 7.7 per cent or \$41 million relative to the prior year.



PURCHASE OF LIFECO COMMON SHARES

During 2003, Investors Group supported Lifeco in its acquisition of Canada Life by purchasing \$100 million of Lifeco common shares issued as part of the financing of the transaction. The company believes the acquisition of Canada Life is attractive to Lifeco from both a strategic and financial perspective.

INVESTORS GROUP OPERATING RESULTS

Market appreciation resulted in growth in assets under management in 2003 and, although mutual fund sales were weak throughout the industry, the non-mutual fund side of Investors Group's operations continued to experience strong growth in a number of areas. The following results exclude operating results from Mackenzie, which are reported separately in this annual report:

- Assets under management were \$40.9 billion in 2003, up 8.8 per cent from \$37.6 billion in 2002.
- Gross sales through Investors Group's consultant network were \$4.0 billion in 2003, compared with \$4.9 billion in 2002.
- The redemption rate on long-term funds was 10.7 per cent in 2003, compared with 10.2 per cent in 2002, significantly lower than the industry average.
- Net redemptions through Investors Group's consultant network were \$839 million.

INSURANCE

- Sales of insurance products were \$31.5 million for the year, compared with \$32.6 million in 2002.

SECURITIES

- Assets under administration increased by 22.4 per cent during the year.
- External assets gathered totalled \$894 million in 2003, compared with \$1.2 billion in 2002.

MORTGAGES

- Mortgage originations were \$838 million in 2003, up 19.4 per cent from 2002.

BANKING

- *Solutions Banking*[™] was launched in the second quarter of 2003.

INVESTING IN CLIENT RELATIONSHIPS

For over 75 years, Investors Group has built strong client relationships through personal financial planning. Its consultants invest their time and expertise to create suitable financial solutions that meet its clients' individual needs, and Investors Group provides a comprehensive selection of financial products, services and advice to support them in this endeavour.

Investors Group invests heavily in its consultants and provides them with extensive training and support. These consultants examine the client's long-term goals and tolerance for risk, and recommend balanced, diversified and professionally managed investment portfolios, while providing knowledgeable advice on retirement, tax and estate planning.

The value of this approach was evident in 2003, as the many clients who took a long-term view and stayed true to their investment objectives during the prolonged bear market were rewarded with attractive returns.

INVESTING IN PRODUCTS, SERVICES AND SUPPORT

Investors Group made further investments in its products and services in 2003, resulting in additional enhancements to their quality and selection. Investors Group's mutual funds continue to provide clients with excellent investment performance.

At year-end, 40 per cent of Investors *Masterseries*[™] mutual funds had four- or five-star ratings from the independent *Morningstar*[™] service, and 74 per cent had a rating of three stars or above, both significantly higher than the *Morningstar*[™] universe and consistent with results from the past several years.

In August, Investors Group adjusted the fundamental investment strategy for seven of its *1World*[™] portfolio funds to more effectively diversify their investments according to the *Symphony*[™] strategic investment planning approach. They are now known as the *Allegro*[™] Portfolios.

Also during the year, I.G. Investment Management, Ltd. and Mackenzie took on additional fund advisory duties and Waddell & Reed Ivy Investment Company and J.P. Morgan Fleming Asset Management (Canada) Inc. were added as subadvisors to certain funds and equity pools.

During the second quarter, Investors Group launched *Solutions Banking*TM, a private-label banking offer in conjunction with National Bank of Canada. The offer consists of a suite of 17 deposit, lending and credit insurance products, including credit cards, debit cards, cheques and online banking through the Investors Group Web site. The introduction of banking products and services expands Investors Group's financial planning platform to address an even broader scope of its clients' financial needs.

INVESTING IN THE COMMUNITY

Investors Group was proud to maintain its commitment to the communities in which its consultants and clients live and work. Through the Investors Group Community Investment Program and in partnership with consultants and employees, Investors Group contributed financial resources and substantial volunteer support in 2003 to projects and organizations across Canada. For the second consecutive year, Investors Group was named the winner of the Imagine Mutual Fund Community Investment Award in recognition of its commitment to the community.

INVESTING IN OUR FUTURE

Going into 2004, Investors Group is a stronger and more focused organization. There is a greater sense of optimism in the financial markets, and that optimism is beginning to be shared by an increasing number of its clients and potential clients.

The investments made in its people, platform and operations over 2003 have made Investors Group even more competitive. With its efforts focused on growth in 2004, Investors Group will continue to prudently manage its expenses and work with Mackenzie and the other members of the Power Financial group of companies – Great-West Life, London Life and Canada Life – to make each of its operations more effective and efficient.

The year ahead will be about building a thriving business, which will benefit Investors Group's clients, consultants, employees and the company.

MACKENZIE FINANCIAL CORPORATION

As a result of our retail, financial, relationship with more than 10,000
small businesses, we have become a leading provider of small business
advice and support services to our customers.

Mackenzie Financial Corp. is a private company of the Canadian
financial services industry. Founded in 1982, it has been a leading provider
of small business financial services, including providing a
financial planning service for small businesses.

Over 1 million
Canadian small businesses

\$35 billion
annual turnover

40,000
employees across Canada

MACKENZIE FINANCIAL CORPORATION



JAMES L. HUNTER
PRESIDENT AND CHIEF EXECUTIVE OFFICER,
MACKENZIE FINANCIAL CORPORATION

The positive market performance in 2003 was a welcome development for Mackenzie's business and for the entire industry. As investor confidence returns, Mackenzie's depth of talent and innovative products will stand out and should be rewarded with both market share increases and sales.

The return of market momentum will be very positive for shareholders and fund investors. Expenses continue to be a concern for independent financial advisors and Mackenzie is managing costs and carefully seeking efficiencies for all stakeholders.

2003 RESULTS

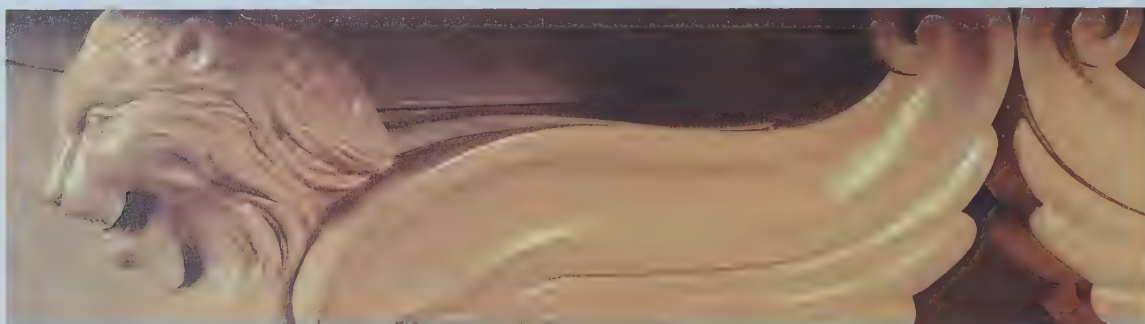
In 2003, Mackenzie's contribution to Investors Group Inc.'s earnings from operations before interest and taxes increased to \$221 million from \$218 million in 2002. Just as important, Mackenzie generated \$3 billion in market returns for investors in its mutual funds.

Mackenzie management also continued to pursue synergy goals among its affiliated organizations within the Power Financial group of companies. Together, the stated goal for shareholder and unitholder synergies of \$100 million in 2003 was exceeded. Mackenzie believes that additional opportunities will continue to be achieved in the year ahead.

As one example, in November 2003, the transfer of Investors Group's mutual fund unitholder records to Mackenzie's industry-leading software platform was completed. This conversion will significantly reduce future unitholder costs as both Mackenzie and Investors Group now maintain only one world-class software platform, which serves two separate and distinct fund administration teams. One of the key features of the software is its secure multi-company capability, which preserves the integrity and privacy of each company's client base.

BUILDING A STRONG TEAM

The rising markets of this past year are good news, but Mackenzie is still operating in a highly competitive environment. For this reason, the company has been unrelenting in adding



to its already strong team of investment managers. During 2003, Mackenzie added to its pool of talent with the arrival of two-time Canadian Fund Manager of the Year Ian Ainsworth and his colleague Mark Grammer. Peter Dawkins, former Managing Director of Institutional Equity Research at a major Canadian bank-owned brokerage firm, was hired as Chief Investment Officer and Karen Bleasby, Chief Investment Officer of a former competitor, joined Mackenzie to work on quantitative and asset allocation products.

Mackenzie also appointed very accomplished managers from the U.S. firm of Waddell & Reed Ivy Investment Company to subadvise assets in several of its funds. With Waddell & Reed, Bluewater Investment Management Inc. and The Cundill Group, Mackenzie's line of U.S. funds now offers the full spectrum of value, blend and growth investment styles, and the company is well positioned to take advantage of a growing interest in U.S. markets.



CRITICAL SUCCESS FACTORS

The business of Mackenzie is to provide investment solutions and products to independent financial advisors and their clients. Accordingly, industry-leading investment results are a fundamental focus of the company. Mackenzie believes investment results are the number one critical success factor in its segment of the industry. The following points illustrate the strength of Mackenzie's team:

- Throughout the year, Mackenzie had more five-star *Morningstar*™ funds than any other Canadian mutual fund company.
- 90.1 per cent of Mackenzie's mutual fund assets were in the first or second quartile, on a ten-year basis, at December 31, 2003.
- At the Canadian Investment Awards Gala for 2003, Mackenzie won eight awards for the second consecutive year, including Peter Cundill's "Analysts' Choice Fund Manager of the Year" and Chief Investment Strategist Fred Sturm's second consecutive award for "Specialty Fund of the Year".
- Among Mackenzie managers Peter Cundill, Jerry Javasky and Ian Ainsworth, one of these fund managers has won the industry's most prestigious "Analysts' Choice Fund Manager of the Year" award five of the last six years – a record of which Mackenzie is especially proud.

The skills and expertise of Mackenzie's marketing and sales group were also demonstrated with the winning of the "Print Advertising Award" for the "Some people are lucky, for the rest of us it takes planning" campaign.

Mackenzie's marketing team completed a major repositioning initiative to properly showcase its fund brands within the Mackenzie corporate identity. This approach allows Mackenzie to promote its corporate name and integrate separate fund brands with distinct service concepts, such as its group RRSP business and Private Client services for independent financial advisors and their clients.

MACKENZIE OPERATING RESULTS

In 2003, Mackenzie had gross sales of \$5.3 billion, the highest in the independent advice channel of the industry. This led to \$209 million in net sales for long-term funds, a result that was among the best for major independent fund companies.

In addition to mutual funds, Mackenzie provides investment management, administration and distribution services for private and institutional investors, segregated funds and labour-sponsored investment funds. All business segments gained assets in 2003. Private and institutional assets grew 36.6 per cent, segregated funds increased 35.9 per cent and VenGrowth labour-sponsored funds gained 4.8 per cent.

A COMMITMENT TO INNOVATION

Mackenzie continues to support, train and maintain a wholesale fund sales force which independent financial advisors rate as the best in the industry.

Mackenzie's track record in product development and innovation continued at an active pace in 2003. For example, the company has focused on improving the tax planning opportunities and the tax deferral available from Mackenzie's new, improved Capital Class funds. With the launch of RRSP Canadian-content eligibility and other products soon to be introduced, Mackenzie believes that a more tax-efficient fund, structured investment product, or income trust would be difficult to find in Canada. The unique new Capital Class structure should be a powerful platform to compete against alternative investment products, such as income trusts and closed-end funds.

Mackenzie's new Symmetry product line brings together the best of strategic asset allocation and advice to provide a level of customization not available with most other programs. Symmetry portfolios are constructed to meet each investor's unique profile using strategic asset allocation. The program allows further customization with the integration of active funds to incorporate style biases, investment themes, or concentration on a particular geographic region. As part of Mackenzie's proprietary Capital Class structure, Symmetry offers a level of tax optimization unmatched among wrap programs in Canada. The structure enhances the tax-deferral attributes of certain fund classes for investors who wish to compound their investment tax-free until such time as they dispose of their investment. The product is also useful for investors and their families who require tax-efficient current income.

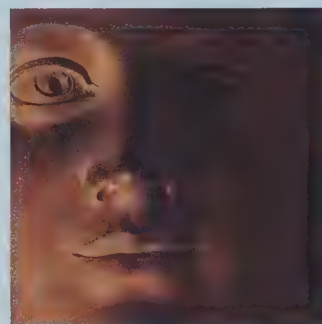
Mackenzie also introduced two new fund brands in 2003: Sentinel and *Select Managers*[™]. Sentinel comprises 14 of Mackenzie's existing income funds and *Select Managers*[™] comprises 6 of the former *Universal Select Managers*[™] funds.

Mackenzie also launched three CIBC *FULPaY*[™] Mackenzie Funds-Linked Deposit Notes during the year. These products provide protection of principal and the potential to deliver equity-like returns with sales in 2003 exceeding \$100 million.

TRUST AND ADMINISTRATION SERVICES

Mackenzie continues to benefit from the support and contribution of its trust and administrative services operations at M.R.S. Trust Company, Multiple Retirement Services Inc., M.R.S. Securities Services Inc. and Winfund Software Corp. Collectively, these firms allow Mackenzie to internalize revenue, reduce costs and support independent financial advisors with scale-based back office solutions. Together, MRS Group partners with independent financial advisors and their dealer firms to provide product and service solutions to increase their competitive advantage in the market place. MRS Group services 900,000 registered and investment accounts, through more than 9,500 independent financial advisors representing some 400 dealer firms across Canada.

Looking ahead, the MRS Group of Companies management sees significant opportunities to broaden its services and dealer revenue base using its superior technology and low-cost, multi-dealer mutual fund processing and net settlement systems. In addition,



several potential synergies have been identified between MRS's securities business, MRS's mutual fund dealer services business, Winfund's business and various businesses of Mackenzie's sister company, Investors Group. Work is ongoing to capture those synergies and to internalize revenue currently paid to third-party software and other service providers.

POSITIONED FOR GROWTH

In summary, Mackenzie concluded the year with over one million clients across Canada and over \$38 billion in assets under management and administration. Mackenzie works with nearly 40,000 independent financial advisors across Canada and has a 7.7 per cent market share among Investment Funds Institute of Canada member mutual fund manufacturers.

Mackenzie is in a strong position to deliver prosperity and growth. The company enjoys a powerful combination of resources within the Power Financial group of companies, an entrepreneurial management team and innovative, industry-leading products.



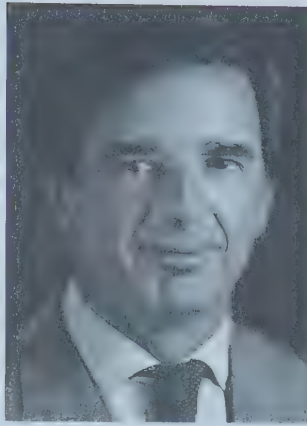
PARGESA GROUP

14.5%

\$6.1 billion

\$1.4 billion

PARGESA GROUP



AIMERY LANGLOIS-
MEURINNE
MANAGING DIRECTOR,
PARGESA HOLDING S.A.

PARJOINTCO N.V.

Power Financial Corporation, through its wholly owned subsidiary Power Financial Europe B.V. and the Frère group of Belgium each hold a 50 per cent interest in Parjointco N.V., a Netherlands-based company. Parjointco's principal holding is a 54.4 per cent equity interest (61.4 per cent of the voting shares) in Pargesa Holding S.A. (Pargesa), the Pargesa group's parent company, which is based in Geneva, Switzerland.

PARGESA'S PORTFOLIO

As at December 31, 2003, Pargesa had a 48.0 per cent equity interest (50.3 per cent of the voting shares) in the Belgian holding company Groupe Bruxelles Lambert (GBL). Pargesa and GBL had shareholders' equity of \$6.3 billion and \$11.3 billion, respectively, at year-end 2003.

Pargesa and GBL together hold a controlling interest in Imerys S.A., a world leader in minerals. GBL also has interests in three leading European companies: Bertelsmann (media and entertainment), Total (oil, gas, and chemicals) and Suez (energy, water and waste services).

The strategy of the Pargesa group is to focus on developing and adding value to the companies in which it holds substantial interests. As at December 31, 2003, the group's four main holdings – Bertelsmann, Total, Suez and Imerys – accounted for 93 per cent of Pargesa's adjusted net asset value.

BERTELSMANN

With its head office in Gütersloh, Germany, Bertelsmann is an integrated media and entertainment company. Bertelsmann generated revenues of €16.8 billion (\$26.6 billion). It has leading positions in the world's major media and entertainment markets. The group includes:

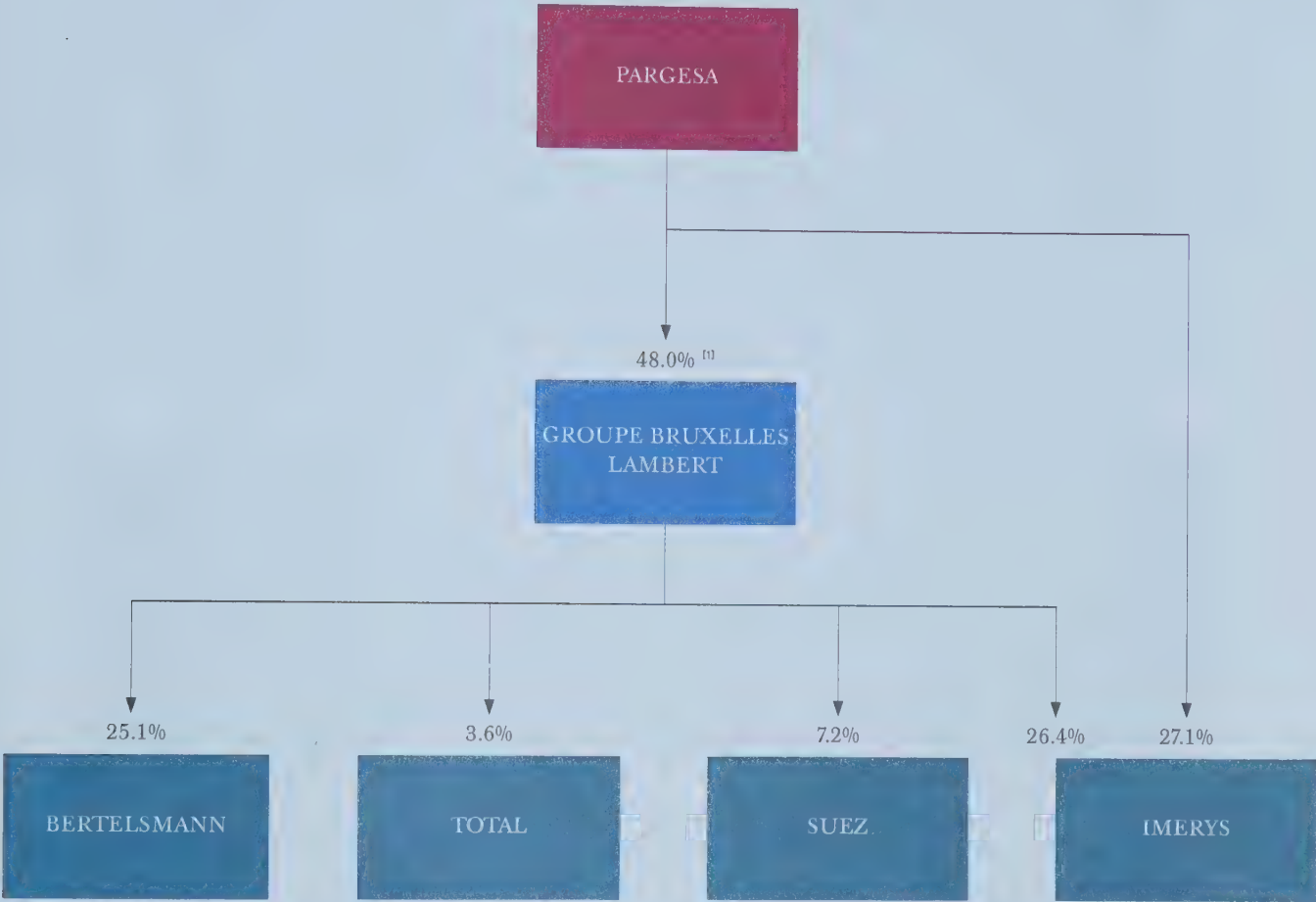
- RTL Group, Europe's leading television, radio and television production group;
- Random House, the world's largest book-publishing group with more than 250 publishers, including Alfred A. Knopf, Bantam, Siedler Verlag, and Goldmann;
- the international publishing house Gruner + Jahr, Europe's largest magazine publisher;
- the Bertelsmann Music Group (BMG) with more than 200 labels, including RCA, Arista, Jive, and J Records, and artists such as Alicia Keys, Dido, Pink, Avril Lavigne, OutKast and Britney Spears;
- DirectGroup, Bertelsmann's direct-to-customer business, includes book and music clubs that have 32 million members worldwide; and
- Arvato contains the group's media services, including the expanding business units of Arvato Logistics Services Group and Arvato Direct Services.

Among the key events of the year, Bertelsmann sold, in May 2003, the specialist publishing group BertelsmannSpringer, based on a debt-free amount of €1.05 billion (\$1.6 billion). The media content businesses are now focused on entertainment.

In December 2003, Bertelsmann and Sony Corporation signed an agreement to combine their recorded music businesses in a joint venture. The newly formed company, Sony BMG, will be 50 per cent owned by Bertelsmann and 50 per cent owned by Sony Corporation of America and will be based in New York.

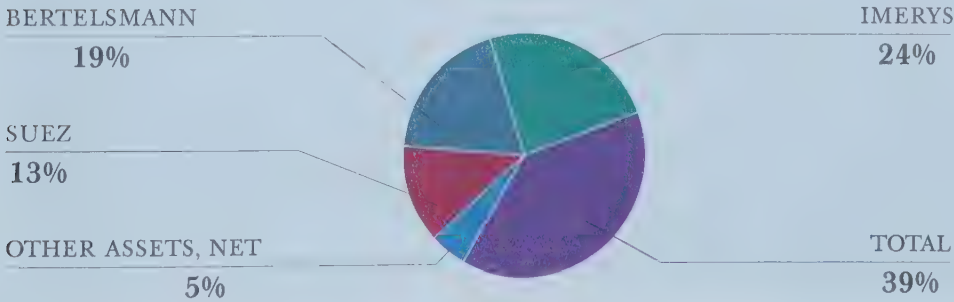
Sony BMG will combine the recorded music businesses of BMG and Sony Music Entertainment. It will not include the parent companies' businesses in music publishing, physical distribution and manufacturing. This agreement lays the groundwork for a new company that focuses on the core creative business, seeking to create an environment where it can best serve the global music audience and where artistic expression can thrive. This transaction is expected to enhance the profitability of the Bertelsmann music business unit, which has been operating in a challenging market environment during the past few years. The transaction is subject to regulatory approval.

PARGESA HOLDING S.A.
 PERCENTAGES DENOTE PARTICIPATING EQUITY INTEREST
 AS OF DECEMBER 31, 2003



[1] PARGESA HELD 50.3 PER CENT OF THE VOTING RIGHTS IN GBL AT DECEMBER 31, 2003

DISTRIBUTION OF ADJUSTED NET ASSET VALUE OF PARGESA
 AT DECEMBER 31, 2003



In 2003, Bertelsmann was affected by the weakness of the U.S. dollar against the Euro. The weaker dollar primarily affected Random House and BMG. Results in 2003 were also affected by reduced demand and product piracy faced by BMG. Despite these factors and a difficult economic climate in Europe, especially in Germany, the group generated an operating EBITA of €1,123 million (\$1,777 million), compared with €936 million (\$1,388 million) in 2002. In addition, Bertelsmann recorded capital gains of €620 million (\$981 million) in 2003, primarily on the disposal of BertelsmannSpringer, the specialist publishing group, and of its position in barnesandnoble.com. Net income was €154 million (\$244 million) for the year, compared with €928 million (\$1,376 million) in 2002. Net financial debt was reduced from €2.7 billion (\$4.5 billion) in 2002 to €0.8 billion (\$1.3 billion) at the end of 2003.

RTL GROUP RTL Group is Europe's leader in television, radio and TV production, with revenues of €4.5 billion (\$7.1 billion) in 2003. RTL Group has holdings in 25 television



channels and 23 radio stations in 8 European countries. Based in Luxembourg, it produces more than 9,000 hours of programming in 39 countries. RTL Group is one of the world's leading non-U.S. content providers. Despite overall weak advertising markets, especially in Germany, RTL Group achieved operating EBITA of €503 million (\$796 million), compared with €465 million (\$690 million) recorded the previous year.

RANDOM HOUSE Random House is the world's largest English-language publishing house encompassing publishers such as Ballantine Books, Bantam Dell, and the Knopf Publishing Group. It also includes Golden Books Entertainment, one of the leading U.S. children's book publishers, with extensive rights to family entertainment properties. Random House and Mondadori contributed their respective worldwide Spanish-language book publishing operations in a joint venture called Grupo Editorial Random House Mondadori. Based in Barcelona, this group is now the world's second-largest publisher of trade books in Spanish.



In Germany, the activities of Verlagsgruppe Random House extended its operations significantly by acquiring Heyne Verlag. Random House became the first Western trade book publisher to enter the Asian book market by forming a joint venture with Kodansha, Japan's leading book publisher. A similar landmark collaboration was signed in Korea with JoongAng Ilbo Publishers. J.M. Coetzee, whom Random House has long published in the U.K., Canada, Australia, and Spain, won the Nobel Prize for Literature. Operating EBITA in 2003 reached €147 million (\$232 million), compared with €168 million (\$249 million) in 2002. The decline is mainly attributable to foreign currency effects from the U.S. dollar to Euro, since the greatest part of Random House revenues and profits originates in the United States of America.

GRUNER + JAHR Gruner + Jahr, Europe's largest magazine publisher, generated revenues of €2.5 billion (\$3.9 billion) in 2003. The group publishes more than 110 magazines and newspapers in 15 countries with titles such as GEO, Capital, Femme Actuelle, Family Circle and Parents. Despite the decline in advertising revenues, the company managed to increase its operating EBITA to €234 million (\$370 million), compared with €226 million (\$335 million) in 2002.

BMG In 2003, the Bertelsmann Music Group continued to do business in a difficult, shrinking market. By eliminating regional corporate groups in Europe, Asia and in the Latin regions, BMG reduced its operating costs and enhanced its ability to bring music to the markets quickly and more efficiently. Operating EBITA reached €110 million (\$174 million), after €125 million (\$185 million) in 2002.

In 2003, a record 22 Grammy Awards testify to the creative leadership across all musical genres and regional borders. The year's top sellers included the work of BMG stars Avril Lavigne, Pink, Britney Spears, Alicia Keys, R. Kelly, OutKast, Dido, Christina Aguilera, Justin Timberlake, Dave Matthews Band and Eros Ramazzotti. As stated earlier, Bertelsmann and Sony Corporation of America announced that they intend to merge their recorded music divisions into a new joint venture, Sony BMG. This new venture is a bold move towards reducing operating costs and revitalizing the music business in difficult markets.

ARVATO With approximately 60 subsidiaries worldwide, Arvato is one of the largest internationally networked media service providers. The group consists of the Bertelsmann Services Group, which offers its customers industrial services such as the management of information, data and merchandise flows, service centres, storage media production, digital rights management, and state-of-the-art printers. Arvato also includes Sonopress, the world's leading manufacturer of CDs and DVDs, the multimedia-printing operation Topac, and Digital World Services, the leader in Internet digital rights management. Arvato's operating EBITA for 2003 was €260 million (\$411 million), compared with €217 million (\$322 million) in 2002.

DIRECTGROUP BERTELSMANN By focusing on club businesses, DirectGroup generated an earnings leap in 2003 despite a revenue decline to €2.3 billion (\$3.6 billion) (2002 – €2.7 billion (\$4.0 billion)). Operating EBITA improved from minus €150 million in 2002 to nearly break-even in 2003 despite a tough economic climate.

The improved operating results are evidence of successful rehabilitation measures: a focus on core business, systematic withdrawal from pure e-commerce, and the increased delegation of responsibility to local management as part of strengthening the decentralized organization. The division also relied on active cost-management measures.

Parallel to its reorganization, DirectGroup began enhancing the appeal of its clubs by modernizing stores and launching media campaigns. For the first time, selected books were promoted worldwide as part of a joint marketing initiative. A new joint venture with a Chinese partner (“21st Century Book Chain”) is expected to bring further growth. Bertelsmann is the first international media company to be given the opportunity to build a nationwide book retail chain in China. At year-end, the worldwide book and music clubs of the group counted 32 million members.

TOTAL

Total is an international oil, gas, and petrochemical group based in Paris, France, operating in more than 100 countries. It is involved in all aspects of the oil and gas industry, from exploration and production to refining and retail distribution. The petrochemical group is an international leader in each of its market segments, which include petrochemicals and plastics, intermediate and performance polymers, and specialty chemicals. In 2003, Total had sales of €104 billion (\$164 billion). Investment expenditures remained substantial and totalled some €7.7 billion (\$12.2 billion), 69 per cent for the upstream sector. Net cash flows from operating activities before changes in working capital amounted to €12.5 billion (\$19.8 billion), compared with €11.0 billion (\$16.3 billion) in 2002.

In 2003, the five per cent increase in hydrocarbon production, combined with the implementation of productivity programs and ongoing share buy-backs representing 4.6 per cent of capital, drove up net income per share (excluding non-recurring items) to a record high of €11.56, an increase of 23 per cent from 2002. When expressed in U.S. dollars for purposes of comparison with peers, this is a 47 per cent increase, one of the industry’s best performances.

Net income, excluding non-recurring items, was up 17 per cent compared with 2002, reaching €7.34 billion (\$11.5 billion). Net income amounted to €7.03 billion (\$11.1 billion), an 18 per cent increase.

In 2003, Total’s return on average capital employed was 19 per cent and its return on equity was 26 per cent, versus 20 per cent in 2002.

UPSTREAM SECTOR Total's hydrocarbon production increased by five per cent in 2003, to 2.5 million barrels of oil equivalent per day. Proven reserves also grew in 2003, reaching 11.4 billion barrels of oil equivalent. These proven reserves represent 12.3 years of production based on the current production rate. The 2001–2003 average reserve replacement rate for Total's consolidated subsidiaries was 145 per cent.

DOWNSTREAM SECTOR Total is Europe's largest refiner and distributor. In 2003, it refined an average of 2.5 million barrels per day, a six per cent increase. Capacity utilization rose to 92 per cent from 88 per cent in 2002. Refined product sales remained virtually stable at 3.7 million barrels per day.

PETROCHEMICALS SECTOR In 2003, sales for the petrochemical segment were €17.3 billion, down 11 per cent. Excluding the company's paint operations, which were sold in February 2003, this decrease would have been only two per cent and is primarily due to exchange rate fluctuations.

SUEZ

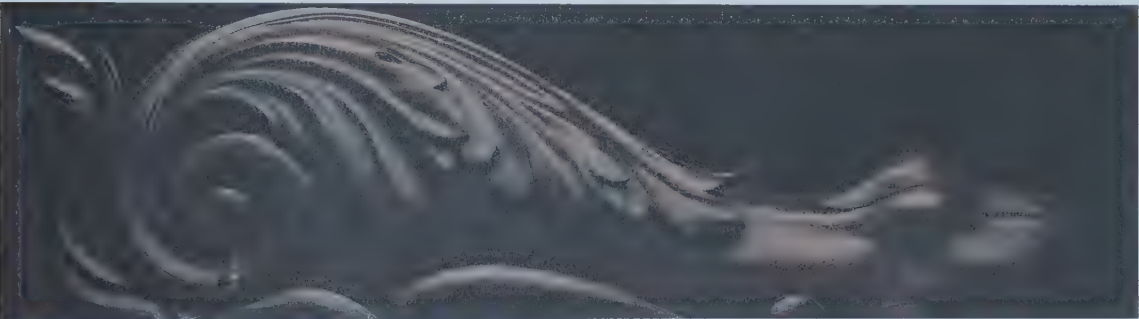
With its head office in Paris, France, Suez is a leading international industrial organization providing private infrastructure and global utility services related to energy and the environment. In 2003, Suez generated revenues of €39.6 billion (\$62.7 billion) through operations in 130 countries. Europe and North America contributed almost 90 per cent of revenues, with approximately 80 per cent in Europe alone.

In 2003, after a period of sustained international growth in recent years, Suez redirected its focus to its core businesses, namely energy and environment, and took steps to strengthen its financial structure. Non-strategic assets were sold, including the majority of interests held in the communications sector. Non-performing interests or contracts were also sold or terminated, and the company also disposed of Nalco and of a 75 per cent position in Northumbrian. These steps reduced net debt from €26 billion (\$43 billion) in 2002 to €15 billion (\$24 billion) at year-end 2003 and to €13.9 billion by the end of February 2004. The company reduced its risk exposure in emerging countries and its annual average investment program was cut from €8 billion (\$12 billion) to €4 billion (\$6 billion). Going forward, Suez will focus on its more robust and profitable markets: the European Union and North America. It is also working to implement a major cost-reduction program.

Net operating income was €747 million (\$1,182 million) and, after accounting for non-recurring charges and restructuring costs related to the implementation of the above-mentioned action plan in 2003, the company recorded a net loss of €2.2 billion (\$3.5 billion).

IN THE ENERGY SECTOR, Suez had revenues of €26.6 billion (\$42 billion). Suez controls 100 per cent of the Belgian company Suez-Tractebel, one of the largest private electric utilities in the world, with more than 90,000 employees in 100 countries. It has an installed production capacity of more than 50,000 megawatts. Through its affiliates, Suez-Tractebel operates gas transportation facilities and provides management and maintenance services for thermal installations, urban heating and cooling systems, and co-generation systems, mainly in Europe and the United States.

IN THE ENVIRONMENTAL SECTOR, with sales of €12.3 billion (\$19.5 billion), Suez is the world leader in water-quality improvement and engineering management. It provides water distribution and purification services. Its subsidiary, Degrémont, is the global leader in its field with 10,000 plants built. Degrémont provides engineering services for the design and construction of water treatment plants. Suez is also a major European operator in the area of waste management and is involved in the collection, sorting, processing, storage and recycling of a wide range of household and industrial waste.



IMERYS

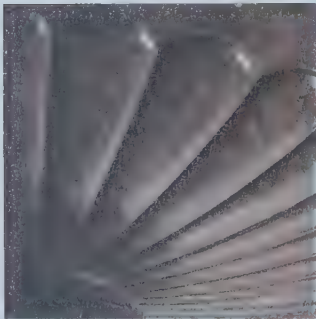
The Imerys group is a world leader in the production and sale of value-added minerals. Imerys posted annual sales of €2.7 billion (\$4.3 billion) for fiscal year 2003. With substantial mineral reserves and sophisticated processing facilities, Imerys produces essential value-added products for a diversified clientele. The company holds market-leading positions in each of its four niches: Pigments for Paper, Specialty Minerals, Building Materials, and Refractories & Abrasives.

In 2003, sales were 4.7 per cent lower than in 2002, basically due to the depreciation of the U.S. dollar against the Euro. Despite unfavourable market conditions, such as the steep rise in the cost of energy and poor economic conditions in the paper, refractories and abrasives markets, Imerys posted net income of €160 million (\$253 million), 12 per cent higher than the previous year. This was achieved largely through the company's programs to reduce production costs.

THE PIGMENTS FOR PAPER DIVISION, which had annual sales of €748 million (\$1,183 million), produces kaolin, ground calcium carbonate (GCC) and precipitated calcium carbonate. Imerys is the only company with reserves in all three major high-grade kaolin zones: the United States, the United Kingdom and Brazil. This division also has a global production and distribution system for GCC and offers the world's widest range of pigments.

THE SPECIALTY MINERALS DIVISION, which had sales of €763 million (\$1,207 million), produces mineral and ceramic components that are essential to a wide range of industries, including paint, plastics, adhesives, porcelain tableware, sanitaryware and floor tiles. The group is the world's leading producer of high-purity graphite, which has many technical applications, including the manufacturing of lithium-ion batteries for mobile phones. Imerys is also the world's leading producer of raw materials for tableware and sanitaryware.

THE BUILDING MATERIALS DIVISION, which had annual sales of €652 million (\$1,031 million), manufactures and sells roofing and structural products, primarily for the



construction and renovation of single-family homes. Imerys is France's leading producer of clay roof tiles and clay bricks, and the largest specialist roofing products distributor. It is also the leader in the French market in high-quality natural slates. Imerys products are sold across Europe, but primarily in France.

THE REFRACTORIES & ABRASIVES DIVISION had annual sales of €593 million (\$938 million). Imerys holds a leading position in Europe in the sale of high value-added monolithic refractories and is the world's number one producer of minerals for abrasives. Refractories, which are raw materials or finished products that resist very high temperatures under harsh chemical and physical conditions, have numerous applications in industrial sectors as varied as steel, casting, power generation, ceramics and electronics.





POWER FINANCIAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

This section of the annual report is a discussion and analysis of Power Financial Corporation's (Power Financial or the Corporation) financial condition, results of operations and cash flows for the year ended December 31, 2003. Additional information relating to Power Financial may be found on SEDAR at www.sedar.com. The 2004 Annual Information Form will be available in May, 2004.

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APRIL 2, 2004

FORWARD-LOOKING STATEMENTS This report may include forward-looking statements about objectives, strategies and expected financial results. These statements are inherently subject to risks and uncertainties beyond the Corporation's control including, but not limited to, global economic and financial conditions, regulatory developments in Canada and elsewhere, technological developments and competition. These and other factors may cause the Corporation's actual performance to differ materially from that contemplated by forward-looking statements, and the reader is therefore cautioned not to place undue reliance on these statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

OVERVIEW

Power Financial is a holding company which holds substantial interests in the financial services industry through its controlling interests in Great-West Lifeco Inc. (Lifeco) and Investors Group Inc. (Investors Group). Power Financial also holds an interest in Pargesa Holding S.A. (Pargesa) together with the Frère group of Belgium.

LIFECO

Lifeco has operations in Canada and internationally through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life, which was acquired in July 2003). In the United States, it operates through Great-West Life & Annuity Insurance Company (GWL&A) and Canada Life. All these operating companies are direct or indirect wholly owned subsidiaries of Lifeco.

In Canada, Great-West Life and its subsidiaries, London Life and Canada Life, offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of financial security advisors, through independent brokers, and through marketing agreements with other financial institutions.

Internationally, insurance and wealth management products and services are offered through Canada Life subsidiaries, mainly in the United Kingdom, the Republic of Ireland, the Isle of Man and Germany.

In the U.S., GWL&A is a leader in providing self-funded employee health plans for businesses and in meeting the retirement income needs of employees in the public/non-profit and corporate sectors. It serves its customers nationwide through a range of health care and financial products and services marketed through brokers, consultants and group representatives and through partnerships with other financial institutions.

Great-West Life provides reinsurance through Canada Life and its subsidiaries, and through London Reinsurance Group (LRG), primarily in Canada, the United States and European niche markets.

As at December 31, 2003, Power Financial and Investors Group held 70.4 per cent and 4.2 per cent, respectively, of Lifeco's common equity, representing 65 per cent of the voting rights attached to all outstanding Lifeco voting shares.

INVESTORS GROUP INC.

Investors Group Inc., is one of Canada's premier personal financial services companies and Canada's largest manager and distributor of mutual funds and other managed asset products. The company's two operating units, Investors Group and Mackenzie Financial Corporation (Mackenzie), offer their own distinctive products and services through separate advice channels encompassing over 43,000 consultants and independent financial advisors.

Investors Group, through a network of over 3,200 consultants nationwide, provides personal financial solutions to close to one million Canadians. Clients receive comprehensive financial planning advice and service, including investment, retirement, tax and estate planning. Investors Group has top quality investment management with global operations in Winnipeg, Toronto, Montréal, Dublin and Hong Kong and offers a full range of investments through its own proprietary funds and third-party advised funds, along with a broad selection of insurance, securities, banking and mortgage products and services.

Mackenzie is a multifaceted investment management and financial services corporation, which was founded in 1967. At December 31, 2003, Mackenzie had more than \$38 billion in assets under management and administration and more than one million clients. Mackenzie mutual funds are sold through relationships with nearly 40,000 independent financial advisors across Canada.

As at December 31, 2003, Power Financial and Great-West Life held 56.0 per cent and 3.5 per cent, respectively, of Investors Group's common equity.

PARGESA

The Pargesa group has substantial holdings in a selected number of major companies based in Europe, participating in media and entertainment through Bertelsmann; oil, gas and chemicals through Total; energy, water and waste services through Suez; and specialty minerals through Imerys. Power Financial, through its wholly owned subsidiary Power Financial Europe B.V., and the Frère group each hold a 50 per cent interest in Parjointco N.V., which at the end of 2003 held a 54.4 per cent equity interest in Pargesa representing 61.4 per cent of the voting rights of the company. Pargesa is a public company and more information can be found in its annual report.

Lifeco, Great-West Life, London Life and Investors Group each publish an annual report. Pargesa will publish its 2003 annual report in April 2004. Copies of these annual reports are available from the Secretary of each of these companies or from the Secretary of Power Financial. Lifeco, Great-West Life, London Life and Investors Group are reporting issuers under Canadian securities legislation and accordingly file their financial statements, related management's discussion and analysis, and other disclosure documents on www.sedar.com. Pargesa is a publicly traded company in Switzerland and publishes its financial results in accordance with Swiss legal requirements.

MAJOR DEVELOPMENTS

The major development affecting the Corporation in 2003 was the acquisition on July 10 by Lifeco of Canada Life Financial Corporation (CLFC), the parent company of Canada Life. Lifeco acquired all outstanding common shares of CLFC that it did not already beneficially own, for an aggregate transaction value of \$7.2 billion. Lifeco immediately transferred the common shares of CLFC to its Canadian subsidiary, Great-West Life. CLFC is now a subsidiary of Great-West Life.

The consideration paid by Lifeco for the acquisition consisted of cash, and common and preferred shares of Lifeco.

In support of the transaction, on July 10, 2003 Power Financial and Investors Group invested \$800 million and \$100 million, respectively, in treasury common shares of Lifeco, through private placements. Prior to the transaction, Power Financial also purchased common shares of Lifeco and CLFC on the open market. The shares of CLFC were subsequently tendered into the acquisition, and Power Financial received common shares and preferred shares of Lifeco, as well as cash. At the end of December 2003, Power Financial's and Investors Group's equity interests in Lifeco stood at 70.4 per cent and 4.2 per cent, respectively, as already mentioned, compared with 78.5 per cent and 4.4 per cent, respectively, at the end of 2002. This decrease in ownership interest in Lifeco generated a significant dilution gain, as explained further in this report.

RESULTS OF POWER FINANCIAL CORPORATION

GENERAL This section is an overview of the results of Power Financial. To facilitate the presentation, discussion and analysis are based on condensed supplementary financial statements prepared by Power Financial's management, as in prior years. In these supplementary financial statements, Lifeco and Investors Group are accounted for using the equity method. This presentation has no impact on Power Financial's net earnings, but is intended to assist readers in their analysis of the results of the Corporation.

PRESENTATION OF RESULTS – NON-GAAP FINANCIAL MEASURES

In analysing the financial results of the Corporation, net earnings are, as in previous years, subdivided into the following components:

- operating earnings, and
- other sources of earnings, referred to in this section as other income.

Management uses these performance measures in its analysis of the ongoing financial performance of the Corporation and believes that such a presentation, which has been used for many years, provides additional meaningful information to the readers in their analysis of the Corporation's results. "Operating earnings" excludes the after-tax impact of any item which management considers to be of a non-recurring nature or which could make the year-over-year comparison of results from operations difficult, including the Corporation's share of specific items identified by Lifeco and Investors Group as well as any non-operating earnings of Pargesa.

Operating earnings and operating earnings per share, as described above, are non-GAAP financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. Management has provided, further in this section, a reconciliation of these non-GAAP financial measures to the GAAP measures presented in the consolidated financial statements.

INCLUSION OF PARGESA'S RESULTS

Pargesa's financial statements have been adjusted by Power Financial to conform to Canadian GAAP. These adjustments consist, among other things, of eliminating the effect of amortization of goodwill.

Contribution from the European affiliate to Power Financial's earnings is based on an economic (flow-through) presentation of Pargesa's results. Pursuant to this presentation, Power Financial's share of non-operating income of Pargesa, adjusted, if necessary, as described above, is included as part of "other income" in the Corporation's financial statements.

EARNINGS SUMMARY

CONDENSED SUPPLEMENTARY STATEMENTS OF EARNINGS

DECEMBER 31 [IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2003		2002		% CHANGE
	TOTAL ^[1]	PER SHARE	TOTAL ^[1]	PER SHARE	
Contribution from subsidiaries and affiliate to operating earnings	1,294		1,087		
Results from corporate activities	(33)		(13)		
Operating earnings	1,261	3.43	1,074	2.97	15.5
Other income	762	2.19	(86)	(0.25)	
Net earnings	2,023	5.62	988	2.72	

[1] Before dividends on preferred shares, which amounted to \$67 million in 2003 [\$45 million in 2002].

OPERATING EARNINGS

Operating earnings of Power Financial for 2003 were \$1,261 million or \$3.43 per share, compared with \$1,074 million or \$2.97 per share in 2002. This represents a 15.5 per cent increase on a per share basis.

SHARE OF OPERATING EARNINGS FROM SUBSIDIARIES AND AFFILIATE  The contribution from Power Financial's subsidiaries and affiliate to operating earnings totalled \$1,294 million in 2003, as against \$1,087 million in 2002, an increase of \$207 million or 19 per cent. This reflects primarily an increase in the contribution from Lifeco, as well as Investors Group and Parjointco.

The contribution from Lifeco to Power Financial's operating earnings grew from \$719 million in 2002 to \$894 million in 2003. Earnings per share of Lifeco increased by 18 per cent in 2003, before the impact of the restructuring charges incurred in connection with the acquisition of Canada Life (whose results have been included from July 10, 2003; see Note 16 to the financial statements). The increase also includes the additional contribution provided by the shares of Lifeco acquired during the year, primarily in connection with the private placements described earlier herein.

Investors Group contributed \$312 million to operating earnings in 2003, compared with \$288 million in 2002, reflecting an increase of 8.6 per cent in Investors Group's earnings per share, excluding the impact in 2003 of the reversal of a provision for restructuring costs, of an increase in the future income tax liability related to intangible assets, and of the dilution gain recorded by Investors Group in connection with the Canada Life transaction.

Parjointco, which holds Power Financial's interest in Pargesa, contributed \$88 million to the Corporation's operating earnings in 2003, as against \$80 million in 2002. The impact of the reversal of goodwill amortization expense included in Pargesa's results represented approximately \$0.11 per share in 2003 and \$0.10 in 2002. These adjustments relate primarily to Pargesa's indirect share of goodwill amortization recorded by Bertelsmann.

Readers are referred to the sections on Lifeco, Investors Group and Pargesa in this report for further discussion of the operating results of these entities.

RESULTS FROM CORPORATE ACTIVITIES,  which represent the contribution of Power Financial to operating earnings, were a charge of \$33 million in 2003, compared with a charge of \$13 million in 2002. Corporate results include income from investments, interest and operating expenses, depreciation and income taxes.

The variance in results from corporate activities is primarily due to an increase in interest expense as a result of the issuance, in March 2003, of the \$250 million debentures and an increase in operating expenses, partly offset by higher income from investments resulting from a higher average cash balance and rates of return in 2003, compared with 2002.

Preferred share dividends, which are included for the purpose of calculating operating earnings per share, were \$67 million in 2003, as against \$45 million in 2002. This increase reflects the impact of the issuance by Power Financial of Series F, First Preferred Shares in July 2002, Series H in December 2002, and Series I and J in March 2003, net of the redemption of the Corporation's Series B, First Preferred Shares in May 2003.

OTHER INCOME

Other income amounted to \$762 million or \$2.19 per share in 2003, compared with a charge of \$86 million or \$0.25 per share in 2002.

Other income in 2003 consisted primarily of a net dilution gain of \$888 million (calculated on an equity basis) recorded in connection with the acquisition of CLFC by Lifeco, as a consequence of the net decrease of Power Financial's equity ownership in Lifeco due to the issuance of common shares to third parties at a price which was significantly higher than Lifeco's book value per share.

Also included in other income are:

- Power Financial's share of after-tax restructuring charges recorded by Lifeco in 2003 in connection with the acquisition of CLFC;
- Power Financial's share of special items recorded by Investors Group. In 2003, Investors Group recorded (i) a partial reversal, for an amount of \$16 million after tax (\$25 million before tax) of the provision for restructuring costs that was recorded in 2001 in connection with the acquisition of Mackenzie, and (ii) a charge of \$25 million arising from increases in Ontario income tax rates and their effect on the future income tax liability related to indefinite life intangible assets;
- the Corporation's share of non-operating earnings derived from Pargesa; and
- other non-recurring items recorded at Power Financial, consisting principally of an increase in the provision to cover estimated dilution losses that would result from the future exercise of stock options granted by subsidiaries, as previously disclosed in the interim report for the third quarter of 2003.

Other income in 2002 consisted primarily of Power Financial's share of non-operating items recorded within the Pargesa group and, in particular, the impact of the €1.3 billion reduction recorded by Bertelsmann in the carrying value of its investment in Zomba.

NET EARNINGS

Net earnings, which include operating earnings and other income, were \$2,023 million or \$5.62 per share in 2003, compared with \$988 million or \$2.72 per share in 2002.

RECONCILIATION WITH FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2003

[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]

	OPERATING EARNINGS	OTHER INCOME	TOTAL
Earnings before share of earnings of affiliate, other income, income taxes and non-controlling interests	2,698		2,698
Share of earnings of affiliate	88		88
Earnings before other income, income taxes and non-controlling interests	2,786		2,786
Other income		783	783
Earnings before income taxes and non-controlling interests	2,786	783	3,569
Income taxes	827	23	850
Non-controlling interests	698	(2)	696
Net earnings	1,261	762	2,023
Preferred share dividends	(67)		(67)
Attributable to common shareholders	1,194	762	1,956
Per share	3.43	2.19	5.62

FOR THE YEAR ENDED DECEMBER 31, 2002

[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]

	OPERATING EARNINGS	OTHER INCOME	TOTAL
Earnings before share of earnings of affiliate, other income, income taxes and non-controlling interests	2,203		2,203
Share of earnings of affiliate	80		80
Earnings before other income, income taxes and non-controlling interests	2,283		2,283
Other income		(85)	(85)
Earnings before income taxes and non-controlling interests	2,283	(85)	2,198
Income taxes	749		749
Non-controlling interests	460	1	461
Net earnings	1,074	(86)	988
Preferred share dividends	(45)		(45)
Attributable to common shareholders	1,029	(86)	943
Per share	2.97	(0.25)	2.72

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES
CONDENSED SUPPLEMENTARY BALANCE SHEET

DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002	2003	2002
	CONSOLIDATED BASIS		EQUITY BASIS ^[1]	
Cash and cash equivalents	3,646	2,437	215	753
Investments	81,060	51,119	8,577	6,392
Other assets	21,254	14,763	79	62
Total	105,960	68,319	8,871	7,207
Actuarial liabilities	66,999	44,508		
Other liabilities	19,668	10,022	334	202
Long-term debt	4,198	2,313	400	150
	90,865	56,843	734	352
Non-controlling interests	6,958	4,621		
Shareholders' equity				
Preferred shares	1,250	1,050	1,250	1,050
Common shareholders' equity	6,887	5,805	6,887	5,805
Total	105,960	68,319	8,871	7,207
Consolidated assets and assets under administration	242,333	172,815		

[1] Condensed supplementary balance sheet with Lifeco and Investors Group accounted for using the equity method.

CONSOLIDATED BASIS

The variance of \$38 billion in total assets in 2003 is primarily due to the impact of the acquisition of Canada Life by Lifeco, including related goodwill and intangible assets, for \$5 billion.

Long-term debt increased from \$2,313 million to \$4,198 million on a consolidated basis, reflecting in particular (i) the inclusion of Canada Life long-term debt, and (ii) the impact of additional long-term debt resulting from the new financings made by Lifeco, Investors Group and Power Financial in 2003, net of repayments of \$403 million.

The variance in non-controlling interests reflects in particular the issuance of preferred shares by Lifeco, net of redemptions of existing preferred shares, and the increase in non-controlling interests resulting from the decrease in Power Financial's ownership in Lifeco.

Assets under administration include segregated funds of Lifeco and Investors Group's mutual fund assets, at market values. The market value of Lifeco's segregated funds was \$62 billion in 2003, compared with \$36 billion in 2002; the increase in 2003 includes the impact of the acquisition of Canada Life, which added \$24 billion in segregated fund assets. Investors Group's mutual fund assets at market value, including those of Mackenzie, were \$75 billion in 2003 and \$68 billion in 2002.

For more details about Lifeco's and Investors Group's assets and liabilities, readers are referred to the corresponding subsections of this MD&A, as well as to the Notes to the Corporation's financial statements.

EQUITY BASIS

Under this presentation, Lifeco and Investors Group are accounted for using the equity method. This presentation has no impact on Power Financial's shareholders' equity, but is intended to assist readers in isolating the contribution of Power Financial as the parent company to assets and liabilities.

CASH AND CASH EQUIVALENTS held by Power Financial amounted to \$215 million at the end of 2003, compared with \$753 million at the end of 2002. The decrease reflects primarily the impact of the investment in Lifeco common shares, partly offset by the net proceeds from new financings made in 2003. In aggregate, Power Financial invested \$1,021 million in common shares of Lifeco, including \$800 million through private placement (excluding the \$100 million investment made by Investors Group).

These investments were financed from existing cash as well as from the proceeds of the issue by the Corporation in March 2003 of \$250 million of 30-year debentures, and of \$200 million of Series I (perpetual) and \$150 million of Series J (10-year soft-retractable) preferred shares. In addition, in May 2003, the Corporation redeemed its outstanding Series B, First Preferred Shares for an aggregate cash consideration of \$153 million, including \$3 million in accrued dividends.

In the course of managing its own cash and cash equivalents, the Corporation may invest in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, the Corporation enters into currency-hedging transactions from time to time with highly rated financial institutions. At December 31, 2003, 98 per cent of the \$215 million of cash and cash equivalents were denominated in Canadian dollars or in foreign currencies combined with currency hedges.

INVESTMENTS represent principally the carrying value of Power Financial's investments in Lifeco, Investors Group and Parjointco. The carrying value of the Corporation's investments in its subsidiaries and affiliate increased by \$2,185 million in 2003. This increase primarily reflects:

- [i] the investments made by the Corporation in common shares of Lifeco;
- [ii] the impact of the dilution gain recorded in connection with the acquisition of CLFC by Lifeco;
- [iii] Power Financial's share of net earnings from its subsidiaries and affiliate, net of dividends received; and
- [iv] the net negative variation in foreign currency translation adjustments, related principally to the Corporation's indirect investments in GWL&A and Pargesa. At the end of 2003, the Swiss franc and the U.S. dollar exchange rates were 9 and 18 per cent lower, respectively, than at the end of 2002.

LONG-TERM DEBT issued by Power Financial amounted to \$400 million at the end of 2003, compared with \$150 million a year earlier, as a result of the issuance in March 2003 of the \$250 million 6.90% 30-year debentures.

CASH FLOWS

CONSOLIDATED CASH FLOWS

On a consolidated basis, cash and cash equivalents increased from \$2.4 billion to \$3.6 billion in 2003.

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Cash flow from operating activities	2,534	1,752
Cash flow from financing activities	747	(936)
Cash flow from investing activities	(2,072)	(499)
Increase in cash and cash equivalents	1,209	317
Cash and cash equivalents, beginning of year	2,437	2,120
Cash and cash equivalents, end of year	3,646	2,437

Cash flows from operating activities in 2003 reflect in particular the inclusion of Canada Life operations since July 10, 2003.

Included in cash flows from financing activities are dividends paid and the proceeds from the various financings (excluding shares issued to CLFC shareholders), net of repayments or redemptions of debt and preferred shares. In 2003, this included:

- proceeds from the issuance in March by Power Financial of preferred shares, Series I and J, and long-term debt for an aggregate amount of \$600 million, net of \$150 million representing the cash consideration paid by Power Financial in connection with the redemption of First Preferred Shares, Series B;
- proceeds from the issuance by Lifeco of \$1,196 million of long-term debt, net of debt repayments for \$128 million, and redemption of preferred shares for \$102 million; and
- proceeds from the issuance by Investors Group of \$300 million of long-term debt, net of repayments for \$275 million.

Cash flows from investing activities included in 2003 the cash effect of the acquisition of Canada Life by Lifeco, for a net amount of \$1,826 million.

CORPORATE CASH FLOWS

Corporate cash flows represent cash flows of Power Financial when Lifeco and Investors Group are accounted for on an equity basis.

Power Financial is a holding company. As such, corporate cash flows from operations are principally made up of dividends received from its subsidiaries and affiliate and income from investments, less operating expenses, interest expense and income taxes. The payment of dividends by Lifeco, which is also a holding company, in turn depends on sufficient funds received from its principal subsidiaries, which are subject to restrictions set out in relevant insurance and corporate laws and regulations which require that certain solvency and capital standards be maintained. Certain operations of Investors Group also have to comply with liquidity requirements established by regulatory authorities.

FOR THE YEARS ENDED DECEMBER 31 [PER SHARE]		2003	2002
	CURRENT ANNUALIZED DIVIDEND ^[1]	DIVIDEND	DIVIDEND
Great-West Lifeco Inc. [C\$]	1.29	1.125	0.945
Investors Group Inc. [C\$]	1.10	0.99	0.86
Pargesa Holding S.A. – bearer share [SF]	92	86	80

[1] Lifeco and Investors Group: based on quarterly dividends declared in January 2004.
Pargesa dividend to be approved at its May 2004 Annual General Meeting.

In 2003, dividends declared on the Corporation's common shares amounted to \$1.205 per share, compared with \$1.040 per share in 2002, an increase of 16 per cent. The holders of common shares of the Corporation benefited from increased dividends from the subsidiaries and affiliate.

SHAREHOLDERS' EQUITY

Shareholders' equity at the end of 2003 was \$8,137 million, compared with \$6,855 million at the end of 2002.

The increase in shareholders' equity is primarily due to:

- a net increase of \$200 million in preferred shares outstanding, including gross proceeds from the issuance of Series I and J First Preferred Shares in March 2003 for an aggregate \$350 million, less \$150 million of Series B, First Preferred Shares which were redeemed in May 2003;
- a \$1,526 million increase in retained earnings; and
- a \$452 million negative net variation in foreign currency translation adjustments, relating primarily to the Corporation's indirect investments in GWL&A and Pargesa, as well as to the cross-currency swap in connection with the \$150 million debentures.

At the end of 2003, eight distinct series of first preferred shares were outstanding, for an aggregate amount of \$1,250 million. Series A, D, E, F, H, and I are perpetual preferred shares, representing an aggregate amount of \$950 million (of which \$850 million are non-cumulative). Each of these series is redeemable in whole or in part at the option of the Corporation from specific dates. The balance of \$300 million are non-perpetual preferred shares, which are non-cumulative. For more details about the preferred shares issued by Power Financial, readers are referred to Note 12 to the financial statements.

Excluding first preferred shares, common shareholders' equity amounted to \$6.9 billion at year-end 2003, compared with \$5.8 billion at year-end 2002. Book value per common share was \$19.77 at the end of 2003, compared with \$16.73 a year earlier.

In 2003, the Corporation issued 1,560,000 common shares (2002 – 155,000) under the terms of the Employee Stock Option Plan, resulting in an increase in stated capital of \$8 million (2002 – \$1 million).

RATINGS OF THE CORPORATION

AS AT DECEMBER 31, 2003		
	DOMINION BOND RATING SERVICE	STANDARD & POOR'S RATINGS SERVICE ^[1]
Senior debentures	A [high]	A+
Preferred shares		
Cumulative	Pfd 2 [high]	Canadian scale P1 [low] Global scale A-
Non-cumulative	Pfd 2 [high] n	Canadian scale P1 [low] Global scale A-

[1] Ratings are on a negative outlook.

In February 2003, at the time the proposed acquisition of CLFC by Lifeco was initially announced, both Dominion Bond Rating Service (DBRS) and Standard & Poor's Ratings Service (S&P) issued press releases in which they announced that they proposed changes to the ratings of Power Financial upon the closing of the acquisition. Following the closing, on July 10, 2003, DBRS lowered its ratings by one notch, with a stable trend. S&P lowered all of the ratings which had been placed on "Credit Watch" in February 2003 by one notch. At the same time, S&P removed these ratings from "Credit Watch". S&P has assigned a counterparty credit rating of A+ and given its ratings a "negative outlook".

Readers are referred to the respective sections concerning Lifeco and Investors Group for more information on the ratings of these companies.

NEW ACCOUNTING POLICIES

- Costs associated with exit and disposal activities

In March 2003, the CICA issued Emerging Issues Committee (EIC) Abstract EIC-135 Accounting for Costs Associated with Exit and Disposal Activities (Including Costs Incurred in a Restructuring) for restructurings initiated after March 31, 2003. The standard replaces EIC-60 Liability Recognition for Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) and requires recognition of integration and restructuring costs in income when they are incurred. Please refer to Note 16 for the impact of this standard on the financial statements of the Corporation.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in Canada (GAAP) requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. The major critical accounting policies and related judgments underlying the Corporation's financial statements are summarized below. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Corporation's businesses and operations.

(The Corporation's general policies are described in detail in Note 1 of the Consolidated Financial Statements.)

ACTUARIAL LIABILITIES Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the actuarial liabilities to make appropriate provision for the obligations to policyholders. The Appointed Actuaries determine the actuarial liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

(Additional details regarding these adjustments and estimations can be found in Note 8 of the Consolidated Financial Statements.)

INCOME TAXES The Corporation has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefits. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

EMPLOYEE FUTURE BENEFITS Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for accrued benefit obligations.

(These estimates are discussed in Note 17 of the Consolidated Financial Statements.)

FUTURE ACCOUNTING CHANGES

○ Stock-based compensation and other stock-based payments

Effective January 1, 2004, *CICA Handbook* – Section 3870, Stock-based Compensation and Other Stock-based Payments was amended to require expense treatment for all stock-based compensation and payments. Previously, the standard encouraged, but did not require, the use of a fair value-based method to account for stock-based transactions with employees. On January 1, 2004, the Corporation adopted the amended standard retroactively without restatement of prior periods for all stock-based compensation and payments to employees. The impact of adopting the new recommendations in the Corporation's consolidated financial statements will not be material.

○ Hedging relationships

Accounting Guideline 13 – Hedging Relationships (AcG-13) specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges and the discontinuance of hedge accounting. Subsequent to January 1, 2004, derivatives that do not qualify for hedge accounting will be carried at fair value on the consolidated balance sheets, and changes in fair value will be recorded in the consolidated statements of income. Non-qualifying derivatives will continue to be utilized on a basis consistent with the risk management policies of the Corporation and will be monitored by the Corporation for effectiveness as economic hedges, even if the specific hedge accounting requirements of AcG-13 are not met. The Corporation has reassessed its hedging relationships as at January 1, 2004 and has determined that the impact of adopting the new recommendation will not be material.

OFF-BALANCE SHEET ARRANGEMENTS

The following should be read in conjunction with the Notes to the financial statements.

○ Derivative financial instruments

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market-makers in such derivatives.

Transactions using derivative products may be implemented for hedging purposes, for asset/liability, interest rate, equity market price or foreign currency exchange management, or to synthetically replicate an investment for those situations where it is deemed to be more effective from a cost and flexibility perspective to do so, as compared to directly investing in a particular type of investment.

The Corporation and its subsidiaries have each established strict operating policies and processes, which in particular aim at:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring of the hedging relationship.

The use of derivatives is monitored and reviewed on a regular basis by senior management of these companies.

Derivative financial instruments used by the Corporation and its subsidiaries include in particular:

- interest-rate swaps and swaptions;
- equity index swaps and futures;
- forward sales contracts;
- equity options;
- currency options;
- cross-currency swaps;
- foreign exchange forward contracts; and
- credit derivatives.

As at December 31, 2003, the notional amount of outstanding derivative contracts entered into by the Corporation and its subsidiaries was \$9,723 million (2002 - \$7,419 million), with a maximum credit risk and a total fair value of \$465 million and \$283 million respectively (2002 - \$130 million and \$(86) million). Maximum credit risk represents the current market value of the instruments which were in a gain position only; total fair value represents the total net amount at which an instrument could be bought or sold in a current transaction between willing parties.

See Note 1 to the financial statements for more details on the type of derivative financial instruments used by the Corporation and the related hedging strategies.

○ Securitizations

In the ordinary course of business, Investors Group enters into securitization transactions which serve as a source of funding for a variety of lending transactions. More specifically, Investors Group periodically transfers mortgages and personal loans to commercial paper conduits that in turn issue securities to investors. Investors Group retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. Investors Group also transfers NHA-insured mortgages through the issuance of mortgaged-backed securities.

During the course of the year, Investors Group securitized principal amounts of \$128 million, recognizing a net gain of \$1 million on these transactions. As at December 31, 2003, the total value of securitized loans amounted to \$669 million, while Investors Group's retained interests in these assets had a fair value of approximately \$13 million.

○ Guarantees

In the normal course of operations, the Corporation and its subsidiaries may enter into agreements which may contain features that meet the definition of a guarantee, and while the maximum amount of the guarantee cannot always be determined given the nature of the future events which may or may not occur, any such arrangements that are material have been previously disclosed by the Corporation.

○ Commitments

SYNDICATED LETTERS OF CREDIT For certain types of reinsurance business written in the United States, clients are required, pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf from approved banks in order to further secure LRG's obligations under the reinsurance contracts. At December 31, 2003, LRG had syndicated letters of credit facilities in place providing US\$1,100 million of capacity. For more details on these syndicated letters of credit (which meet the definition of guarantees under AcG-14), please refer to Note 23 to the financial statements.

CROWN LIFE ACQUISITION AGREEMENTS As part of the 1999 acquisition by CLFC of the majority of Crown Life Insurance Company's (Crown Life) insurance operations, CLFC has the option, or may be obligated, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, subject to certain conditions, in which case CLFC would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

○ Transactions with related parties

In the normal course of business Power Financial has access to facilities and properties held by its parent company, Power Corporation. Power Financial also shares administrative services and human resources with Power Corporation. Power Financial bears its share of the associated costs.

SUBSEQUENT EVENTS

- On January 14, 2004, Lifeco announced that Jefferson-Pilot Corporation had agreed to purchase the U.S. group business of its indirect subsidiary, Canada Life, subject to regulatory approvals. The Canada Life U.S. group business consists of group life, disability and dental insurance, and represents approximately US\$340 million in annual premium (see also page 92).
- On February 25, 2004, Investors Group announced that it had entered into agreements with IPC Financial Network Inc. (IPC) and certain IPC shareholders to acquire, by way of a plan of arrangement, all of the common shares of IPC at a price of \$1.95 per share. Under the terms of the agreements, IPC shareholders will be entitled to receive, at their option, either (i) \$1.95 in cash, or (ii) \$0.975 in cash and 0.02973 of a common share of Investors Group Inc. for each IPC common share. Shareholders owning or controlling 54 per cent of IPC's outstanding shares have agreed to irrevocably support the transaction. IPC, which was founded in 1996, is the fifth largest financial planning organization in Canada, with \$7.1 billion of client assets under management and administration including \$1.2 billion of mutual fund assets under management. It serves the financial needs of Canadians through over 600 financial advisors. IPC will be operated as a separate entity and will be managed by its current leadership team. Subject to regulatory and shareholder approval, the transaction is expected to be completed in May 2004.

GREAT-WEST LIFECO INC.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

[IN MILLIONS OF DOLLARS, EXCEPT PER COMMON SHARE AMOUNTS]	2003	2002	% CHANGE
FOR THE YEARS ENDED DECEMBER 31			
Premiums:			
Life insurance, guaranteed annuities and insured health products	12,441	11,187	11
Self-funded premium equivalents [ASO contracts] ^[1]	8,218	9,564	(14)
Segregated fund deposits: ^[1]			
Individual products	3,034	2,293	32
Group products	4,510	4,382	3
Total premiums and deposits	28,203	27,426	3
Bulk reinsurance – initial ceded premiums ^[2]	(5,372)	–	
Net premiums and deposits	22,831	27,426	
Fee and other income	1,831	1,807	1
Paid or credited to policyholders ^[2]	8,346	12,593	(34)
Net income attributable to:			
Preferred shareholders	41	31	32
Common shareholders before restructuring costs	1,215	931	31
Restructuring costs ^[3]	20	–	
Common shareholders	1,195	931	28
PER COMMON SHARE			
Basic earnings before restructuring costs	2.998	2.530	18
Restructuring costs after tax ^[3]	0.048	–	
Basic earnings after restructuring costs	2.950	2.530	17
Dividends paid	1.125	0.945	19
Book value per common share	16.72	11.68	43
RETURN ON COMMON SHAREHOLDERS' EQUITY			
Net income before restructuring costs	20.7%	22.9%	
Net income	20.4%	22.9%	
AT DECEMBER 31			
Total assets	97,451	60,071	62
Segregated fund assets ^[1]	61,699	36,048	71
Total assets under administration	159,150	96,119	66
Capital stock and surplus	8,590	4,708	82

[1] Segregated fund deposits and self-funded premium equivalents (ASO contracts)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds or the claims payments related to administrative services only (ASO) Group health contracts. However, Lifeco does earn fee and other income related to these contracts. Both segregated fund and ASO contracts are an important aspect of the overall business of the company and should be considered when comparing volumes, size and trends.

[2] During 2003, as part of a risk-rebalancing program related to the acquisition of CLFC, a number of bulk reinsurance ceded contracts were executed by Great-West Life and GWL&A with third parties. Premiums related to the initial cession of in-force policy liabilities were \$5,372 million.

[3] Following the acquisition of CLFC by Lifeco, a plan was developed to restructure and exit selected operations of CLFC. Costs of \$497 million before tax are expected to be incurred as a result, including approximately \$412 million that was recognized as part of the purchase equation of CLFC, and \$85 million to be charged to income as it is incurred. Of this latter amount, shareholder net income for the year ended December 31, 2003 includes restructuring costs of \$20 million after tax or \$0.048 per common share. Net income, basic earnings per common share and return on common shareholders' equity are presented before restructuring as a measure of earnings performance, excluding restructuring costs related to the acquisition of CLFC, and incurred during the period – refer to non-GAAP financial measures.

HIGHLIGHTS OF OPERATING RESULTS

For the year ended December 31, 2003, net income attributable to common shareholders, excluding restructuring costs, was \$1,215 million, an increase of 31 per cent, compared with \$931 million for 2002, or \$2.998 per common share, an increase of 18.5 per cent, compared with \$2.530 per common share for 2002. Net income, after restructuring costs, attributable to common shareholders was \$1,195 million or \$2.950 per common share for 2003. The results of CLFC are included from July 10, 2003.

Total premiums and deposits, before deduction of initial ceded premiums of \$5.4 billion related to bulk reinsurance of a block of in-force liabilities, increased 3 per cent overall. Within this result, risk-based products were up 11 per cent over 2002, and fee-based products down 3 per cent. Fee and other income was up 1 per cent from 2002.

SOURCE OF NET INCOME

Consolidated net income of Lifeco consists of the net operating earnings of Great-West Life and GWL&A, including Canada Life from the date of acquisition, together with Lifeco's corporate results.

Lifeco's major reportable segments are:

- CANADA/EUROPE made up of the Canada/Europe operations of Great-West Life, including London Life and Canada Life, as well as applicable allocations of Lifeco corporate activities.
- UNITED STATES made up of the operations of GWL&A and the United States branch business of Great-West Life, including the United States business of Canada Life, as well as any applicable allocations of Lifeco corporate activities.
- LIFECO CORPORATE made up of the holding company activities of Lifeco not associated with the major business units.

The following table shows the net income attributable to common shareholders by Lifeco's major reportable segments:

NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002	% CHANGE
CANADA/EUROPE SEGMENT			
Total business units	693	461	50
Allocation of Lifeco corporate	(64)	(20)	
Total Canada/Europe segment	629	441	43
UNITED STATES SEGMENT			
Total business units	375	321	17
Foreign exchange translation	218	169	
Total U.S. segment	593	490	21
LIFECO CORPORATE			
Total holding company	(7)	—	
Restructuring costs	(20)	—	
Total Lifeco corporate	(27)	—	
TOTAL LIFECO	1,195	931	28

CANADA/EUROPE

The operations of the Canada/Europe segment of Lifeco are presented in terms of the major business units of Great-West Life and its subsidiaries, including London Life and Canada Life:

- **GROUP INSURANCE** life, health, disability, and creditor insurance products for group clients.
- **INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS** life, disability and critical illness insurance products for individual clients, as well as retirement savings and income products for both group and individual clients.
- **EUROPE/REINSURANCE** insurance and wealth management products for both group and individual clients in Europe, as well as reinsurance and retrocession business primarily in Canada, the United States and Europe niche markets.
- **CORPORATE** business activities and operations not associated with the major business units of Canada/Europe operations.

Canada/Europe net earnings of Lifeco attributable to common shareholders for 2003 were \$629 million, compared with \$441 million for 2002.

The 2003 earnings result was due to both strong operating earnings for Great-West Life and London Life, as well as the inclusion of Canada/Europe results of CLFC from the date of acquisition, which represents earnings of approximately \$124 million, net of related financing costs.

Total assets under administration for Canada/Europe more than doubled to over \$112.1 billion, including \$49.8 billion attributable to the inclusion of Canada Life.

PREMIUMS AND DEPOSITS – CANADA/EUROPE OPERATIONS

YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002		2003	2002	
	PREMIUMS AND DEPOSITS		% CHANGE	SALES		% CHANGE
Group Insurance	4,103	3,575	15	323	319	1
Individual Operations						
Life insurance	1,942	1,655	17	140	108	30
Living benefits	153	127	20	34	24	42
Retirement & Investment Services	3,856	3,086	25	3,218	2,992	8
Europe/Reinsurance	5,816	3,922	48	5,185	3,922	32
Total premiums and deposits	15,870	12,365	28	8,900	7,365	21
Bulk Reinsurance	(2,716)	—	—			
Net premiums and deposits	13,154	12,365	6			

GROUP INSURANCE  Total premiums, which include claims from Administrative Services Only (ASO) clients, were up 15 per cent to \$4.1 billion in 2003. The growth was driven by continued strong persistency, slightly improved sales results, and rate adjustments to account for health care inflation. Sales results were up a modest 1 per cent overall. While sales emerging from new clients were up significantly, the sales of benefit plan improvements from existing clients deteriorated, reflecting a general industry trend in 2003. Notwithstanding this, sales in the target small- and mid-sized case market increased 8 per cent overall.

INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS  Individual life insurance sales, measured by annualized premium, increased by 30 per cent to \$140 million in 2003, while revenue premium exceeded \$1.9 billion. Sales of participating policies increased 19 per cent in 2003 and continued strong in the age 50+ wealth management market.

Total sales of disability income products and critical illness insurance increased by 42 per cent in 2003, for a total of \$34 million in new annualized premium.

RETIREMENT & INVESTMENT SERVICES The Division experienced increased sales in 2003. Sales results reflected both the acquisition of Canada Life and difficult market conditions during the first half of the year, particularly in the retail segregated funds area.

Individual retail segregated funds grew 40 per cent during 2003, or 14 per cent excluding Canada Life assets acquired during the year.

The company continued to generate positive net cash flows from retail segregated funds. This compares favourably with Investment Funds Institute of Canada (IFIC) members, which in total experienced negative cash flows in 2003.

In 2000, the company established Quadrus Investment Services (Quadrus) as a mutual fund dealer for *Freedom 55 Financial* and Great-West Life investment representatives. Mutual fund assets distributed by Quadrus licensed investment representatives increased 40 per cent over 2002, which included successfully repatriating investment representatives and their mutual fund business to Quadrus. In 2003, sales of mutual funds through Quadrus increased 27 per cent.

EUROPE/REINSURANCE The Europe/Reinsurance Division is broadly organized along geographically defined market segments and offers a wide range of protection and wealth management products and reinsurance. The Division consists of two distinct businesses: Europe, which comprises operating divisions in the United Kingdom, Isle of Man, Republic of Ireland, Germany and around the world; and Reinsurance, which operates primarily in the United States and Europe.

Total premiums of this new business unit of Lifeco were made up of insurance and wealth management premiums of \$2.1 billion and reinsurance premiums of \$3.7 billion.

BULK REINSURANCE The Group Insurance and Individual Insurance business units of Great-West Life and London Life entered into a bulk reinsurance agreement during the third quarter with a third-party reinsurer to cede a portion of direct written individual life and group life and health business. This agreement was effective July 1, 2003 and the following initial cession transactions were recorded in the third quarter Summary of Consolidated Statements of Earnings as a result of the transaction.

BULK REINSURANCE - CANADA/EUROPE

[IN MILLIONS OF DOLLARS]			
	GROUP INSURANCE	INDIVIDUAL INSURANCE	TOTAL
Premium income	(2,716)	—	(2,716)
Paid or credited to policyholders	(2,716)	—	(2,716)
Net income	—	—	—

UNITED STATES

The discussion of operating results is presented in terms of the major business units of GWL&A:

- GREAT-WEST HEALTHCARE health plans and life and disability insurance products for group clients.
- FINANCIAL SERVICES retirement savings products and services for public, private and non-profit employers, corporations and individuals, and life insurance products for individuals and businesses.
- CORPORATE business activities and operations not associated with the major business units of United States operations.

United States consolidated net income of Lifeco attributable to common shareholders for 2003 was \$593 million, compared with \$490 million for 2002.

The 2003 earnings result was primarily due to favourable morbidity in Great-West Healthcare (formerly called Employee Benefits) and the inclusion of the United States operations of CLFC from the date of acquisition, which represents approximately \$45 million.

Total assets under administration in the United States increased 13 per cent to \$47.1 billion, \$9.7 billion attributable to the inclusion of Canada Life, somewhat offset by the change in foreign exchange translation rates.

PREMIUMS AND DEPOSITS – UNITED STATES OPERATIONS

YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002		2003	2002	
	PREMIUMS AND DEPOSITS		% CHANGE	SALES		% CHANGE
Healthcare						
Group life and health	7,842	9,786	(20)	891	1,176	(24)
Financial Services						
Individual Markets	1,000	1,147	(13)	283	545	(48)
Retirement Savings	3,491	4,128	(15)	1,811	1,452	25
Total premiums and deposits	12,333	15,061	(18)	2,985	3,173	(6)
Bulk Reinsurance	(2,656)	—	—			
Net premiums and deposits	9,677	15,061	(36)			

Excluding the changes in foreign exchange translation rates, total premiums and deposits in 2003 decreased 8 per cent, comprising a 10 per cent decrease for Great-West Healthcare and a 5 per cent decrease for Financial Services.

HEALTHCARE 🐉 The 2003 premiums and deposits were US\$5.6 billion, a decrease of US\$0.6 billion from 2002, and fee income was US\$606 million, a decrease of 8 per cent, both due to lower medical membership levels.

Subsequent to year-end, on January 14, 2004, the company announced the proposed sale of the Canada Life U.S. group life and health insurance business (excluding stop-loss) to Jefferson-Pilot Corporation, subject to regulatory approvals. This business represents approximately US\$340 million in annual premium. The transaction should not have a significant impact on the financial results of Great-West Healthcare in 2004.

The total life and health block of business is composed of 1.9 million members at December 31, 2003, down from 2.2 million members a year ago.

FINANCIAL SERVICES 🐉 Total premiums and deposits were US\$3.2 billion in 2003, a decrease of US\$0.2 billion from 2002.

Retirement participant accounts, including third-party administration and institutional accounts, increased 5 per cent in 2003, from 2,159,910 at December 31, 2002 to 2,265,713 at December 31, 2003. Although the segment experienced a decrease in one large case termination of 117,000 participant accounts in the first quarter of 2003, this was offset by growth from sales and increased participation in existing case sales during 2003.

In 2003, the company continued its efforts to partner with large financial institutions to provide individual term life insurance to the general population. At December 31, 2003, there were 116,739 policies in force, compared with 74,080 at December 31, 2002.

BULK REINSURANCE The Great-West Healthcare business unit of GWL&A entered into a bulk reinsurance agreement during the third quarter of 2003 with a third-party reinsurer to cede a portion of direct written group health stop-loss and excess loss business. This agreement was retroactive to January 1, 2003. The Financial Services business unit of GWL&A entered into a reinsurance agreement during the third quarter of 2003 with another third-party reinsurer to cede a portion of guaranteed investment contracts. This second agreement was retroactive to April 1, 2003 and the following initial cession transactions were recorded in the third-quarter Summary of Consolidated Statements of Earnings as a result of these transactions:

BULK REINSURANCE - U.S.

[IN MILLIONS OF DOLLARS]			
	HEALTHCARE	FINANCIAL SERVICES	TOTAL
Premium income	(563)	(2,093)	(2,656)
Investment income	—	(67)	(67)
Paid or credited to policyholders	(563)	(2,166)	(2,729)
Commissions	—	6	6
Net income	—	—	—

LIFECO CORPORATE

The Lifeco corporate segment, established in 2003, captures operating results for activities of Lifeco that are not assigned or associated with the major business units of the company.

The operating results for Lifeco corporate were a charge of \$27 million in 2003 (n/a for 2002) and are comprised mainly of restructuring costs related to the CLFC acquisition, U.S. withholding tax and Lifeco entity operating expenses.

- Restructuring costs: following the acquisition of CLFC on July 10, 2003, a plan was developed to restructure and exit selected operations of CLFC. Costs of \$497 million before income tax are expected to be incurred as a result, including approximately \$412 million that was recognized as part of the purchase equation of CLFC, and \$85 million to be charged to income as it is incurred. Of this latter amount, restructuring costs of \$31 million pre-tax (\$20 million after tax) have been included in net income attributable to shareholders' Lifeco corporate segment.
- U.S. withholding tax is incurred by Lifeco in the course of receiving dividends from U.S. subsidiaries and was \$5 million in 2003.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES
CONDENSED BALANCE SHEET

DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Invested assets	83,116	51,551
Funds withheld by ceding insurers	4,142	4,786
Goodwill and intangible assets	6,663	1,687
Other assets	3,530	2,047
TOTAL ASSETS	97,451	60,071
Policy liabilities	71,498	48,296
Funds held under reinsurance contracts	4,655	—
Other liabilities	10,289	5,016
Non-controlling interests	2,418	2,051
Preferred shares	1,125	430
Common shareholders' equity	7,466	4,278
LIABILITIES, CAPITAL STOCK AND SURPLUS	97,451	60,071
SEGREGATED FUND ASSETS	61,699	36,048

Total assets and assets under administration were \$159.2 billion at year-end 2003, an increase of \$63.0 billion from 2002. Assets under administration include segregated funds of \$61.7 billion at December 31, 2003, compared with \$36.0 billion at the end of 2002, an increase of \$25.7 billion, and general fund assets of \$97.5 billion, an increase of \$37.3 billion over 2002. This reflects in particular the impact of the acquisition of Canada Life, which added \$33.9 billion in general fund assets and \$24.2 billion in segregated fund assets in 2003. Excluding the impact of CLFC, assets under administration increased \$4.9 billion or 5 per cent year-over-year.

Increase in goodwill and intangible assets results from the acquisition of CLFC.

Obligations to policyholders made up 83 per cent of total liabilities at the end of 2003 (91 per cent at year-end 2002). The valuation of policy liabilities is certified by the Actuary of Great-West Life and the Actuary of GWL&A as being in accordance with accepted actuarial practices.

In 2003, Great-West Life, London Life and GWL&A reinsured certain blocks of individual non-participating life insurance on a yearly renewable term insurance basis, and group life, long-term disability and group annuity business on a co-insurance/funds withheld basis. In the consolidated balance sheet, this transaction resulted in a reduction in policyholder liabilities of \$4,655 million and an increase for the same amount in funds held under reinsurance contracts.

During 2003, Lifeco paid dividends of \$1.125 per common share, for a total amount of \$459 million for the year. This represents a dividend payout ratio of 38.1 per cent of 2003 earnings (2002 – 37.4 per cent), and a 2003 dividend yield (dividends as a percentage of average high and low market prices) of 2.8 per cent (2002 – 2.6 per cent). Book value per common share was \$16.72 at December 31, 2003, compared with \$11.68 at December 31, 2002. Capital stock and surplus (excluding non-controlling interests) increased by \$3.9 billion to \$8.6 billion in 2003. On July 10, 2003, in connection with the acquisition of CLFC, Lifeco issued \$2,102 million of common shares and \$796 million of preferred shares to CLFC common shareholders, and \$900 million of common shares from treasury to Power Financial and Investors Group via private placements, for a total of \$3.8 billion. On September 30, 2003, Lifeco redeemed its Series C 7.75% Non-Cumulative First Preferred Shares for a total of \$102 million. In 2003, Lifeco purchased a total amount of \$155 million of its common shares under its normal course issuer bid. Total capital and surplus (including non-controlling interests) of \$11.0 billion at December 31, 2003 was 12.7 per cent of total liabilities, compared with \$6.8 billion or 12.7 per cent in 2002. It is Lifeco’s intention to maintain surplus ratios in its operating subsidiaries at levels sufficient to provide assurance of policyholder security and to maintain its superior credit ratings.

The Office of The Superintendent of Financial Institutions Canada has specified a capital measurement basis for life insurance companies operating in Canada, known as the Minimum Continuing Capital and Surplus Requirements and Great-West Life’s ratio is 190 per cent, a very solid level for the industry (223 per cent at the end of 2002).

GWL&A is subject to comprehensive state and federal regulation and supervision throughout the United States, where the National Association of Insurance Commissioners has adopted risk-based capital rules and other financial ratios for life insurance companies. GWL&A has estimated risk-based capital to be 375 per cent at December 31, 2003 (428 per cent at the end of 2002) after giving effect to the sale of the Canada Life U.S. group life and health business (see also page 92).

RATINGS OF LIFECO AND MAJOR SUBSIDIARIES

RATING AGENCY	MEASUREMENT	LIFECO	GREAT-WEST LIFE	LONDON LIFE	CANADA LIFE	GWL&A
A.M. Best Company	Financial Strength		A+	A+	A+	A+
Dominion Bond Rating Service	Claims Paying Ability		IC-1	IC-1	IC-1	NR
	Senior Debt	A [high]				
	Subordinated Debt				AA [low]	
Fitch Ratings	Insurer Financial Strength		AA+	AA+	AA+	AA+
Moody’s Investors Service*	Insurance Financial Strength		Aa3	Aa3	Aa3	Aa3
Standard & Poor’s	Insurer Financial Strength		AA	AA	AA	AA
Ratings Service*	Senior Debt	A+				
	Subordinated Debt				A+	

*Ratings are on a negative outlook.

All credit ratings of Lifeco and its major subsidiaries were reviewed during 2003.

ASSET QUALITY

Non-performing investments, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totalled \$234 million or 0.3 per cent of portfolio investments at December 31, 2003, compared with \$139 million or 0.3 per cent a year earlier. Lifeco’s allowance for credit losses at December 31, 2003 was \$190 million, compared with \$166 million at year-end 2002.

Lifeco’s exposure to non-investment grade bonds was 2.3 per cent of the portfolio at the end of 2003, down slightly from 2.6 per cent at December 31, 2002.

CASH FLOWS

DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Cash flows relating to the following activities:		
Operations	2,098	1,394
Financing	1,390	(595)
Investment	(1,939)	(724)
Increase in cash and certificates of deposits	1,549	75
Cash and certificates of deposits, beginning of year	912	837
Cash and certificates of deposits, end of year	2,461	912

The increase in cash flows from operations for the twelve-month period is essentially attributable to the inclusion of CLFC results. Financing and investment activities were dominated by the cash components of the CLFC acquisition and the related issue of common shares and debentures, as well as the utilization of credit facilities.

RISK MANAGEMENT AND CONTROL PRACTICES

RISKS ASSOCIATED WITH POLICY LIABILITIES  Insurance companies are in the business of assuming and managing risk. Depending on the product being offered, the risks vary. Products are priced for target levels of return and as experience unfolds pricing assumptions are validated and profit emerges in each accounting period. The significant risks and related monitoring and control practices of Lifeco's operating companies are:

CLAIMS RISKS Many products provide benefits in the event of death or disabling conditions or provide for medical or dental costs. Research and analysis is continuously ongoing to provide the basis for pricing and valuation assumptions which properly reflect the insurance and reinsurance markets where the company is active. Effective underwriting policies control the selection of risks insured for consistency with claims expectations.

PERSISTENCY (POLICY TERMINATION) RISK Products are priced and valued to reflect the expected duration of contracts. This risk is important for expense recovery (higher costs are incurred in early contract years) and for certain long-term level premium products. Annual research studies support pricing and valuation assumptions for this persistency risk.

INVESTMENT-RELATED RISK Products are priced and valued based on the investment returns available on assets which back up the policy liabilities. Effective and continual communication between pricing, valuation and investment management is required to control this risk. Investment policies have been approved by the Board of Directors of each operating company. These policies provide guidance on the mix of assets allowable for each product segment.

REINSURANCE RISK Products with mortality and morbidity risks have specific limits of retention approved by the Board of Directors on the recommendation of the Actuary. The company also takes advantage of financial risk transfer through reinsurance to enhance returns on capital. Companies providing reinsurance are reviewed for financial soundness as part of the ongoing monitoring process.

RISKS ASSOCIATED WITH INVESTED ASSETS  The company acquires and manages portfolios of assets to produce risk-adjusted returns in support of policyholder obligations and corporate profitability. Investment and Lending Policies, as well as Investment Procedures and Guidelines are approved annually by either the Board of Directors or a subcommittee of the Board of Directors. The significant risks associated with invested assets that the operating companies manage, monitor and control are outlined below.

INTEREST RATE RISK exists if asset and liability cash flows are not closely matched and interest rates change. For asset/liability management purposes, the general funds are divided into segments. Assets in each segment are managed in relation to the liabilities in the segment. The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Interest rate risk is also managed by investing in assets that are suitable for the products sold. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. For products with uncertain timing of benefit payments, investments are made in fixed-income assets with cash flows of shorter duration than the anticipated timing of the benefit payments.

CREDIT RISK It is company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company. Guidelines specify minimum and maximum limits for each asset class.

LIQUIDITY RISK The company closely manages operating liquidity through cash flow matching of assets and liabilities and has approximately \$48.0 billion in highly marketable securities.

FOREIGN EXCHANGE RISK Investments are normally made in the same currency as the liability. Any foreign currency assets acquired to back liabilities are converted using foreign exchange contracts.

RISKS ASSOCIATED WITH THE INVESTMENT FUND BUSINESS  **MARKET RISK** The company's investment fund business is fee-based, with revenue and profitability based on the market value of the investment fund assets under management. Fluctuations in fund asset levels occur as a result of both changes in cash flow and general investment market conditions. Through its wide range of funds, the company limits its risk exposure to any particular market.

INTEGRATION OF CANADA LIFE The acquisition of Canada Life has been entered into with the expectation that its successful completion will result in long-term strategic benefits and synergies. The anticipated benefits and synergies will depend in part on whether the operations of both organizations can be integrated in an efficient and effective manner. Speed and quality are two critical success factors for the integration. The company has made significant progress in integrating systems and processes in 2003, and in laying the groundwork for conversion of Canada Life. Lifeco is leveraging the combined expertise and experience of the Lifeco and Canada Life organizations to complete the integration and conversion by early 2005, and to ensure that quality customer service is maintained throughout this process.

OUTLOOK

With the acquisition of CLFC, management believes Lifeco and its subsidiaries are well positioned for a long-term earnings growth. Lifeco's subsidiaries remained tightly focused on their core markets and have plans in place to capitalize on the consolidation of CLFC with Great-West Life and GWL&A. In Canada, Lifeco's extensive distribution network and lower cost structure continues to position it to capitalize on developments in the market place. Lifeco's Europe/Reinsurance operations represent a strong diversified platform for growth with expanded products and services offering an increased market presence. In the United States, Lifeco has positioned itself to respond effectively to changes in the health care market place and expects its defined contribution plan and 401(k) business to continue to grow.

INVESTORS GROUP INC.

SUMMARIZED FINANCIAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2003	2002	% CHANGE
Net income attributable to common shareholders			
Excluding dilution gain, restructuring reversal and income tax charge ^[1]	534	491	8.6
Including dilution gain, restructuring reversal and income tax charge	539	491	9.8
Diluted earnings per share			
Excluding dilution gain, restructuring reversal and income tax charge ^[1]	2.01	1.85	8.6
Including dilution gain, restructuring reversal and income tax charge	2.03	1.85	9.7
Return on equity			
Excluding dilution gain, restructuring reversal and income tax charge ^[1]	18.9%	19.2%	
Including dilution gain, restructuring reversal and income tax charge	19.1%	19.2%	
Dividends per share	0.99	0.86	15.1
Book value per share	10.83	9.82	10.3
Mutual funds			
Investors Group			
Sales	4,021	4,916	(18.2)
Net sales [redemptions]	(839)	(109)	N/M
Assets under management	40,904	37,588	8.8
Mackenzie Financial Corporation			
Sales	5,282	5,998	(11.9)
Net sales [redemptions]	(69)	288	(124.1)
Assets under management	33,770	30,860	9.4
Combined mutual fund assets under management	74,674	68,448	9.1
Corporate assets	6,292	5,987	5.1
Insurance in force [face amount]	31,307	27,546	13.7
Securities operations assets under administration	5,785	4,938	17.2
Mortgages serviced	6,425	6,938	(7.4)
Deposits and certificates	729	709	2.9

[1] Refer to table on page 99 for a reconciliation of non-GAAP financial measures.

HIGHLIGHTS OF OPERATING RESULTS

Net income attributable to common shareholders for the year ended December 31, 2003, excluding the items noted below, was \$533.5 million, compared with \$491.1 million in 2002. Diluted earnings per share on this basis were \$2.01, compared with \$1.85 in 2002, an increase of 8.6 per cent. The figure in 2003 excludes:

- a dilution gain of \$14.8 million, recorded in the third quarter, resulting from the reduction in Investors Group's percentage ownership of Lifeco related to the acquisition of CLFC;
- the reversal, in the fourth quarter, of \$24.8 million (\$15.6 million after tax) of restructuring costs related to the acquisition of Mackenzie; and
- a non-cash income tax charge of \$24.8 million, recorded in the fourth quarter, arising from increases in Ontario income tax rates and their effect on the future income tax liability related to indefinite life intangible assets.

Including these items, net income attributable to common shareholders was \$539.1 million or \$2.03 per share in 2003. This compares with net income attributable to common shareholders of \$491.1 million and earnings per share of \$1.85 in 2002.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

FOR THE YEARS ENDED DECEMBER 31

[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]

	2003		2002	
	NET INCOME	PER SHARE	NET INCOME	PER SHARE
Net income attributable to common shareholders, excluding the following items [non-GAAP results]	534	2.01	491	1.85
Dilution gain	15	0.05		
Restructuring reversal, net of tax	15	0.06		
Non-cash income tax charge	(25)	(0.09)		
Net income attributable to common shareholders [GAAP results]	539	2.03	491	1.85

The company's reportable segments, which reflect the current organizational structure, are:

- Investors Group
- Mackenzie
- Corporate and Other

Management of the company measures and evaluates the performance of these segments based on earnings before interest and taxes, as shown below:

CONDENSED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31

[IN MILLIONS OF DOLLARS]

	2003	2002	2003	2002	2003	2002	2003	2002
	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
Fee income	971	1,030	743	783			1,714	1,813
Net investment income and other	104	100	20	18	36	9	160	127
	1,075	1,130	763	801	36	9	1,874	1,940
Operating expenses								
Commissions	191	196	284	302			475	498
Non-commission	236	254	257	281	1		494	535
	427	450	541	583	1		969	1,033
Earnings before interest and taxes	648	680	222	218	35	9	905	907
Restructuring reversal							25	
Interest expense ^[1]							(86)	(80)
							844	827
Dilution gain							15	
Income before income taxes and discontinued operations							859	827
Income taxes ^[2]							299	317
Income before discontinued operations							560	510
Discontinued operations								2
Net income							560	512
Preferred dividends							21	21
Net income available to common shareholders							539	491
Net income, excluding dilution gain, restructuring reversal and income tax charge [non-GAAP financial measures]							534	491

[1] Interest expense represents the cost of financing the Mackenzie acquisition and totalled \$86 million in 2003, compared with \$80 million in 2002. During 2003, the company refinanced \$275 million of the BA's related to the Mackenzie acquisition with a portion of the proceeds from the debentures issued in December 2002 and the two debentures issued in 2003. The refinancing resulted in an increase in the effective rate of interest on long-term debt related to the Mackenzie acquisition.

[2] The effective rate of tax was 34.8 per cent in 2003, compared with 38.4 per cent in 2002. The company benefited from statutory tax rate reductions, excluding Ontario, as well as other tax benefits, which were partly offset by the non-cash charge of \$25 million related to future income tax liability on intangible assets with an indefinite life, as explained earlier. This charge increased the 2003 effective tax rate by 2.9 per cent.

INVESTORS GROUP

Investors Group's core business provides a comprehensive range of financial and investment planning services to Canadians through its network of highly trained and well-supported consultants.

CONSULTANTS  Investors Group distinguishes itself from its competition by offering personal, long-term financial planning to its clients. At the centre of this relationship is a national distribution network of highly skilled consultants working from 111 Financial Planning Centres across Canada. At the end of 2003, Investors Group had 3,223 consultants, compared with 3,324 in 2002. The percentage of consultants with more than four years' experience remained steady at 60.5 per cent, compared with 60.9 per cent a year earlier.

Investors Group is focused on growing its distribution network through the retention of existing consultants and the attraction of new industry professionals. Although the financial markets and the overall business environment improved in 2003, investor confidence was slow to recover. While this affected the recruitment efforts, retention levels improved in the second half of the year, and the consultant network grew in both the third and fourth quarters of 2003, the first consecutive quarters of growth since 1998.

Investors Group implemented a number of significant changes in 2003 designed to enhance the competitiveness of the product and service offering to its clients as well as changes aimed at providing greater value to consultants. These included:

- a comprehensive review and realignment of its pricing structure to enhance competitiveness;
- a realignment of its consultants' compensation and support to be more competitive, including a deferred compensation component designed to promote consultant retention;
- the introduction of *Symphony*TM, as discussed further in this report;
- the enhancement of the Investors Group *Advantage*TM technology platform, which delivers additional flexibility, capability and productivity; and
- the introduction of *Solutions Banking*TM in June 2003, a suite of banking products and services through National Bank of Canada that expands Investors Group's financial planning-platform to include a greater proportion of its clients' balance sheets.

PRODUCTS AND SERVICES  Investors Group is regarded as a leader in personal financial planning in Canada. This is achieved by delivering personal financial solutions tailored to each client's individual needs. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's long-term goals and tolerance for risk.

In October 2003, Investors Group launched *Symphony*TM, an enhanced strategic investment planning approach. *Symphony*TM is designed to help consultants build their business with a sophisticated investment discipline, backed by a process that provides a sound methodology for measuring a client's risk tolerance. Based on that assessment, consultants are able to provide appropriate risk-adjusted recommendations using Investors Group's extensive offering of funds. *Symphony*TM is a scientific and fully integrated approach to strategic investment planning support, which simplifies the asset allocation process and provides Investors Group with a high degree of competitive differentiation.

Consultants also look beyond investments to offer clients insurance products, banking services, mortgages and tax planning.

REVIEW OF SEGMENT OPERATING RESULTS

Investors Group earns revenue primarily from the management, administration and distribution of 147 Investors *Masterseries*TM, partner and managed asset investment funds. This includes:

- management fees for advising and managing its mutual funds;
- fees charged to its mutual funds for administrative services, through certain of its subsidiaries, and trustee services, through Investors Group Trust Co. Ltd; and
- distribution fees charged to mutual fund account holders, which include redemption fees or back-end loads on mutual funds subject to a deferred sales charge.

Fee income is also earned from the distribution of insurance products, through I.G. Insurance Services Inc., and the provision of securities services through Investors Group Securities Inc. Additional revenue is derived from mortgage, banking and investment certificate operations.

Investors Group's earnings from operations before interest and taxes for the year ended December 31, 2003 were \$648.5 million, compared with \$680.5 million in 2002, as shown on the Condensed Statements of Income.

FEE INCOME To provide a stable level of fee income, Investors Group must continue to maintain high levels of mutual fund assets under management. Mutual fund assets under management totalled \$40.9 billion at December 31, 2003, an increase of 8.8 per cent from \$37.6 billion in 2002. The level of assets under management is influenced by four factors: sales, redemption rates, capital markets and relative investment performance.

For the year ended December 31, 2003, sales of Investors Group mutual funds through its consultant network were \$4.02 billion, a decrease of 18.2 per cent from 2002. This compares to an overall industry decrease in mutual fund sales of 14.3 per cent. Mutual fund redemptions totalled \$4.86 billion for the same period, a decrease of 3.3 per cent from \$5.02 billion in 2002. Investors Group's redemption rate for long-term funds increased to 10.7 per cent in 2003 from 10.2 per cent in 2002, but remains well below the corresponding redemption rate of 14.1 per cent for all other members of IFIC. Net redemptions of Investors Group mutual funds were thus \$839 million in 2003, compared with net redemptions of \$109 million in 2002. Investment management services provided attractive levels of returns during the year as mutual fund assets increased by \$4.2 billion or 11.1 per cent of opening assets due to market appreciation, consistent with overall industry growth. Overall, net change in assets was \$3.3 billion in 2003.

In 2003, management fee income decreased by \$46.0 million or 5.8 per cent to \$741.4 million, reflecting a decline of 4.5 per cent in average daily mutual fund assets in 2003 compared with 2002.

Administration fees totalled \$138.3 million in 2003, down 6.9 per cent from \$148.6 million in 2002. Fees charged to the mutual funds for administrative services declined due to reductions in related expenses. Trustee fees declined due to reduced average mutual fund assets during the year.

Distribution fee income was \$91.9 million in 2003, compared with \$93.6 million in 2002. This decrease was due to lower redemption fee income consistent with the decline in redemptions subject to those fees. Overall, fee income totalled \$971.6 million in 2003, compared with \$1,029.6 million in 2002.

NET INVESTMENT INCOME AND OTHER includes interest and dividends earned on cash and cash equivalents, securities and mortgage loans. It also includes gains and losses on the sale of securities, Investors Group's share of earnings of Lifeco, as well as income related to mortgage banking activities. Investors Group measures net investment income as the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities, certificates and debt, but excludes interest expense on debt incurred to finance its acquisition of Mackenzie.

Net investment income and other totalled \$104.0 million, an increase of 3.5 per cent from \$100.5 million in 2002. The increase is due principally to the increase in Investors Group's share of earnings of Lifeco, offset in part by lower mortgage banking revenue.

OPERATING EXPENSES Investors Group incurs commission expense in connection with the distribution of its financial services and products, particularly its mutual funds. Commissions are paid on the sale of these products and will fluctuate with the level of sales. Commission expense in 2003 decreased by \$4.0 million or 2.0 per cent, to \$191.3 million, compared with \$195.3 million in 2002. The decrease in commission expense was related to:

- lower average mutual fund assets under management resulting in lower asset retention bonus expense; and
- lower mutual fund sales in 2003.

Non-commission expenses declined \$18.5 million to \$235.8 million in 2003 from \$254.3 million in the previous year and represents a decrease of 7.3 per cent. This decline was primarily due to:

- the impact of synergies related to the transition work completed with Mackenzie;
- management of discretionary expenses;
- improvements in productivity and the benefits derived from continued investment in technology;
- the decrease in average assets on which subadvisory fees are based; and
- reductions in consultant network support costs as a result of lower transactional activity levels and a smaller number of consultants during the year.

Management of the company continues to focus on expense reduction measures beyond the opportunities created by the transition activities. Investors Group has been able to gain these efficiencies and reduce expenses without affecting the quality of service provided to its clients and consultants.

MACKENZIE

Mackenzie is a multifaceted investment management and financial services corporation whose core business is the management and administration of mutual funds on behalf of Canadian investors and their financial advisors.

ASSET MANAGEMENT OPERATIONS 🏰 As at December 31, 2003, more than one million clients held Mackenzie mutual funds and segregated funds. Total Mackenzie assets under management and administration increased 11.3 per cent during the year to amount to \$38.3 billion.

In 2003, Mackenzie received eight awards at the Canadian Investment Awards Gala. Mackenzie has now been home to the “Analysts’ Choice Fund Manager of the Year” award for five of the past six years. Industry recognition also came from the *Morningstar*™ fund-ranking service. In December, they reported that for the sixth consecutive month Mackenzie offered the most funds with a five-star rating.

PRODUCT DEVELOPMENT, SERVICE AND POSITIONING 🏰 Mackenzie is a recognized product innovator in Canada and is constantly striving to develop better products that improve the after-tax return to investors. In recent years, Mackenzie has faced significant competition from structured yield products. Management is confident that it can meet these competitive market forces at lower costs for financial advisors and their clients.

In December 2003, Mackenzie filed a preliminary prospectus for Symmetry, a product which will be very competitive with the in-house wrap businesses developed by some distributors. Symmetry portfolios are constructed to meet each investor’s unique profile using strategic asset allocation.

DEALER, TRUST AND ADMINISTRATIVE SERVICES 🏰 MRS Group partners with independent financial advisors and their dealer firms to provide product and service solutions that increase their competitive advantage in the market place. MRS Group is composed of Multiple Retirement Services Inc., a mutual fund dealer, M.R.S. Trust Company, a federally regulated trust company, M.R.S. Securities Services Inc., an IDA member firm, and Winfund Software Corp., a developer and distributor of back-office software. These companies work together to support Canadian investment and mutual fund dealers and their financial advisors.

MRS Group services 900,000 registered and investment accounts. More than 9,500 independent financial advisors representing some 400 dealer firms across Canada choose MRS Group for their clients.

REVIEW OF SEGMENT OPERATING RESULTS

Mackenzie’s earnings from operations before interest and taxes for the year ended December 31, 2003 were \$221.4 million, compared with \$217.9 million in 2002.

FEE AND NET INVESTMENT INCOME Mackenzie’s mutual fund assets under management totalled \$33.8 billion at December 31, 2003, an increase of 9.4 per cent from \$30.9 billion at December 31, 2002. Market performance positively impacted mutual fund assets by \$3.0 billion during the year. Sales of long-term funds (excluding money market and managed yield funds) were \$4.0 billion in 2003, compared with \$4.3 billion in 2002, a decline of 8.1 per cent. Net sales of long-term funds were \$209 million in 2003, compared with \$700 million in 2002.

Management fees were \$554.7 million for the year ended December 31, 2003, a decrease of \$37.9 million from \$592.6 million in 2002. This decline is consistent with the 4.3 per cent decrease in Mackenzie’s average mutual fund assets under management and the decline in the average management fee rate.

Administration fees include the following main components: operating expenses charged to funds, fees earned from administering certain Labour Sponsored Venture Capital Funds, and trustee and other administration fees generated from the MRS Group account administration business. Administration fees increased by \$1.8 million to \$148.5 million in 2003, compared with \$146.7 million in 2002.

Distribution revenue, which represents fees earned on the redemption of mutual fund units sold on a deferred sales charge basis, decreased \$4.7 million to \$39.6 million from \$44.3 million in the previous year, consistent with the decline in the redemption of mutual fund units that were subject to a redemption fee.

Net investment income and other represents the net interest margin from M.R.S. Trust's lending and deposit operations. Net investment income in 2003 was \$19.9 million, an increase of \$2.3 million from \$17.6 million in 2002. The increase in the current year is attributed to a gain realized on the disposition of real estate held for sale.

OPERATING EXPENSES Commission expense, which represents the amortization of deferred selling commissions, decreased \$11.5 million to \$141.7 million from \$153.2 million in 2002.

Trailer fees paid to dealers were \$142.3 million in 2003, a decrease of \$6.7 million from \$149.0 million in the previous year. This decline is consistent with the overall decrease in Mackenzie's average mutual fund assets under management.

Non-commission expenses include costs incurred by Mackenzie in the administration, marketing and management of its mutual funds and all other expenses in the operation of its business. Non-commission expenses decreased \$23.8 million to \$257.3 million in 2003, from \$281.1 million in the previous year. This decline was primarily due to:

- synergies related to the transition work with Investors Group;
- management of discretionary expenditures;
- lower distribution fees paid to a limited partnership, consistent with the decline in average assets financed by limited partnership vehicles; and
- reduction in subadvisory expenses due to the internalization of certain fund mandates and the renegotiation of a number of subadvisory agreements in 2002 and 2003.

CORPORATE AND OTHER

Earnings before interest and taxes for Corporate and Other, the segment which represents net investment income earned on unallocated investments and other income, reflected higher levels of net investment income and other in 2003 compared to 2002. In addition, the figure for 2002 included a \$12.2 million charge to income related to the writedown of the company's investments in mutual funds, in accordance with its accounting policy on securities.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The company's on-balance sheet assets totalled \$6.29 billion at December 31, 2003, compared with \$5.99 billion at December 31, 2002.

CONDENSED BALANCE SHEETS

DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Cash and cash equivalents	969	771
Securities	106	156
Loans	528	549
Investment in affiliate	461	321
Deferred selling commissions	764	727
Other assets	334	337
Goodwill and intangible assets	3,130	3,126
Total assets	6,292	5,987
Deposits and certificates	729	709
Other liabilities	938	942
Long-term debt	1,404	1,386
Shareholders' equity	3,221	2,950
Preferred shares	360	360
Common shareholders' equity	2,861	2,590
Total liabilities and shareholders' equity	6,292	5,987

The company's holdings of securities were \$106.2 million at December 31, 2003, a decrease of \$50.0 million or 32.0 per cent from 2002. Securities currently represent 1.7 per cent of total assets as compared with 2.6 per cent at December 31, 2002. The market value of the company's portfolio at December 31, 2003 exceeded cost by \$125.1 million, consistent with the prior year-end.

The company continually strives to ensure that its portfolio holdings are of the highest quality. To manage the market and credit risk associated with the securities portfolio, a Senior Management Investment Committee monitors and regularly reviews the company's portfolio and approves all purchases.

Loans, including mortgages and personal loans, decreased by \$21.0 million to \$528.0 million at December 31, 2003 and represent 8.4 per cent of total assets compared to 9.2 per cent in 2002. This decrease comprised \$66.5 million in mortgages and personal loans related to the company's intermediary activities and an increase of \$45.5 million in residential loans related to the company's mortgage banking operations.

At December 31, 2003, impaired loans totalled \$2.2 million, unchanged from the prior year, and represented 0.40 per cent of the total loan portfolio, compared with 0.38 per cent at December 31, 2002. The company monitors its credit risk management policies continuously to evaluate their effectiveness. These policies and practices have resulted in the effective control of impaired loans. Management of the company continued its conservative policy of maintaining adequate allowances to absorb all known and foreseeable credit-related losses in the mortgage, loan, and real estate portfolios. The allowance for credit losses exceeded impaired mortgages and loans by \$19.3 million as at December 31, 2003, compared with \$19.4 million at December 31, 2002.

LIQUIDITY

The company's operating liquidity is required for:

- financing ongoing operations, including the funding of selling commissions internally;
- temporarily holding mortgages in its mortgage banking facility;
- meeting regular interest and dividend obligations related to long-term debt and preferred shares;
- payment of quarterly dividends on the company's outstanding common shares; and
- maintaining liquidity requirements for the company's regulated entities.

A key liquidity requirement for the company is the funding of commissions paid on the sale of mutual funds. Commissions paid continue to be fully funded through management fee revenue earned on mutual fund assets under management and through additional sales charges levied in connection with the early redemption of mutual funds. The company also maintains sufficient liquidity to fund and temporarily hold mortgages.

During the year, Investors Group repaid \$275 million of the Floating Bankers' Acceptances due May 30, 2006 which were related to the acquisition of Mackenzie. On July 10, 2003 it purchased, by way of private placement, 2,662,690 common shares of Lifeco for total cash consideration of \$100 million in support of the acquisition of CLFC.

Liquidity can also be provided through the company's ability to raise funds in domestic debt and equity markets, as evidenced by the funds raised to finance its acquisition of Mackenzie and by the funds raised through the \$175 million and the \$300 million in debentures issued in December 2002 and March 2003, respectively, which solidified a longer term capital structure and thus increased financial flexibility.

CAPITAL RESOURCES

Shareholders' equity increased to \$3.22 billion as at December 31, 2003 from \$2.95 billion at December 31, 2002. During 2003, long-term debt increased marginally to \$1.40 billion from \$1.39 billion at December 31, 2002. The company refinanced a portion of its long-term debt, extending terms at attractive interest rates while increasing its financial flexibility. The company's capital management objective is to preserve the quality of its financial position by establishing and maintaining a solid capital base and a strong balance sheet.

The quarterly dividend per common share was increased to 25.5 cents in 2003.

Independent reviews confirm the continuing quality of the company's balance sheet and the strength of its operations. During 2003, both Standard & Poor's Ratings Service (S&P) and the Dominion Bond Rating Service (DBRS) reviewed their ratings of the company's senior debt and liabilities. The senior debt and liabilities were rated "A" with a stable outlook by both S&P and DBRS. Management is confident that the company's current capital resources are adequate and can support its activities during 2004.

CONDENSED STATEMENTS OF CASH FLOWS

DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Cash flows from operating activities	442	356
Cash flows from financing activities	(230)	(663)
Cash flows from investing activities	(14)	224
Increase [decrease] in cash and cash equivalents	198	(83)
Cash and cash equivalents, beginning of year	771	854
Cash and cash equivalents, end of year	969	771

OUTLOOK

THE FINANCIAL SERVICES ENVIRONMENT The financial services industry continues to experience considerable growth and substantial change. Some of the factors contributing to industry growth are:

- changes in investment habits;
- increasing ease of investment in capital markets;
- greater knowledge and understanding of investment products among the general public; and
- shifting demographics – the move of the baby boom generation into peak saving and investing years.

To provide financial planning services to Canadians, the company operates in a highly competitive environment and competes with other mutual fund companies and with other financial services organizations, including banks, brokerage firms and life insurance companies. Merger and acquisition activity in 2003 reflected continued consolidation within the financial services industry.

Investors Group and Mackenzie are well positioned to enhance the company's competitive position in both the mutual fund and the financial services industries. Investors Group and Mackenzie continue to pursue additional opportunities for product and service enhancements and operating efficiencies.

During 2003:

- Management met its transition plan objective, which was to achieve \$100 million (pre-tax basis) of synergies per year on a run-rate basis in the second year following acquisition. This consisted of \$75 million per year in synergies to the company's shareholders and \$25 million per year in synergies to Investors Group and Mackenzie mutual fund clients. Synergies realized by mutual fund clients are based upon reductions in fund operating costs.
- The company completed the largest systems conversion in the history of the Canadian mutual fund industry in November 2003. Mackenzie and Investors Group merged their transfer agency and unitholder record-keeping systems into one shareholder administration system, preserving the integrity and privacy of their respective client bases. Both Mackenzie and Investors Group unitholders will benefit from economies of scale from the combined platform.
- Both Mackenzie and Investors Group developed innovative products and strategic investment planning tools to assist clients in building optimal investment portfolios.

This strategy continues to enhance the extent and quality of the company's client relationships, protect its client base and expand its market share.

THE REGULATORY ENVIRONMENT 🏛️ The company is subject to complex and changing legal and regulatory requirements with the company's principal regulators, including the provincial and territorial governments in Canada. The company's activities are also regulated by the Canadian Securities Administrators, its member constituents and various self-regulatory organizations. Changes in the regulatory framework or failure to comply with any of these laws, rules and regulations could have an adverse effect on the company. The company supports all regulatory efforts that will protect the interests of clients and preserve the integrity and reputation of the industry and its members. Management looks forward to future developments that will further these objectives.

REVIEW OF MUTUAL FUND INDUSTRY PRACTICES 🏛️ The Ontario Securities Commission, the Mutual Fund Dealers Association and other regulatory bodies are reviewing trading practices in the Canadian mutual fund industry and have requested information from mutual fund companies and dealers regarding "late trading" and "market timing" activities. Each of Investors Group and Mackenzie has provided detailed responses, on a timely basis, to the questionnaires issued by these regulators. The company supports this initiative to strengthen the Canadian mutual fund industry and will co-operate fully with the regulators in their efforts to obtain and assess relevant information.

OTHER RISK FACTORS

MARKET RISK 🏛️ Stronger financial markets in 2003 led to growing investor confidence and increases in the level of assets under management. However, risks related to performance of the equity markets and changes in interest rates can have a significant impact on the level and mix of mutual fund assets and sales. In addition, these factors can result in increased redemptions of mutual funds.

REDEMPTION RATES The combined redemption rate for long-term funds for Investors Group and Mackenzie mutual funds was 11.7 per cent at December 31, 2003, among the lowest in the industry. The corresponding redemption rate for the industry as a whole was 14.2 per cent, excluding the company's mutual funds.

Investors Group and Mackenzie provide consultants and independent financial advisors with superior levels of service and support and a broad range of investment products – based on asset classes, countries or regions, and investment management styles. These are key advantages in maintaining strong client relationships and, as a result, the company has been able to maintain redemption rates that are among the lowest in the industry.

The mutual fund industry has successfully educated mutual fund investors on the benefits of long-term investing. Financial advisors can also play a key role in educating investors about the value of portfolio diversification. In periods of declining markets and market volatility, the company's consultants and independent financial advisors are effective in reminding clients of the benefits of long-term investing.

DISTRIBUTION RISK 🏛️ **INVESTORS GROUP CONSULTANT NETWORK** Investors Group derives all of its mutual fund sales through its consultant network. Investors Group consultants have regular direct contact with particular clients, which can lead to a strong and personal client relationship, based on the client's trust in that individual consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key consultants could lead to the loss of client accounts, which could have an adverse effect on Investors Group's results of operations and business prospects.

MACKENZIE Mackenzie derives substantially all of its mutual fund sales through independent financial advisors. Mackenzie's ability to market its products is highly dependent on access to various distribution channels. These intermediaries generally offer their clients investment products in addition to, and in competition with, Mackenzie. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. However, Mackenzie's portfolio of financial products is recognized as one of the most innovative and unique in the industry. This, combined with strong performance, marketing, educational and service support, has made Mackenzie one of Canada's leading companies serving independent financial advisors.

THE PARGESA GROUP

HIGHLIGHTS 🏰 Power Financial and the Frère group of Charleroi, Belgium, each hold 50 per cent of Parjointco N.V., a Dutch company that, as of December 31, 2003, held a 61.4 per cent voting interest (unchanged from 2002) and a 54.4 per cent equity interest (2002 – 54.6 per cent) in Pargesa Holding S.A., the parent company of the Pargesa group. Pargesa has its head office in Geneva, Switzerland, and its shares are listed on the Swiss Exchange. The Pargesa group holds interests in various large European companies active primarily in the media, energy, water, waste services and specialty mineral sectors.

The carrying value of Power Financial’s interest in Parjointco as of December 31, 2003 was \$1.6 billion, as in 2002. Power Financial’s share of earnings of Parjointco, net of dividends received, has been offset by negative foreign currency translation adjustments. An organization chart and a more detailed description of the group’s principal holdings are presented earlier in this Annual Report in the section entitled “The Pargesa Group.”

As at December 31, 2003, Pargesa held a 48 per cent interest (2002 – 48.1 per cent) in the Belgian holding company Groupe Bruxelles Lambert (GBL), representing 50.3 per cent of the voting rights (2002 – 50.2 per cent). GBL, which is based in Brussels, Belgium, is listed on the Euronext Brussels stock exchange. At the same date, Pargesa and GBL jointly held a 53.5 per cent interest (54.3 per cent in 2002) in Imerys S.A. (specialty minerals), a company listed on the Paris stock exchange. In addition, Pargesa held 100 per cent of Orior Holding S.A., also based in Switzerland, which is active in the food industry. GBL holds the group’s interests in Bertelsmann (media and entertainment), Total (energy) and Suez (energy, water and waste services).

PARGESA GROUP – FINANCIAL INFORMATION

AS AT DECEMBER 31, 2003 [IN MILLIONS OF DOLLARS] ^[1]

	PARGESA HOLDING S.A.	GROUPE BRUXELLES LAMBERT
Cash and temporary investments	3	298 ^[2]
Long-term debt	246 ^[3]	30
Shareholders’ equity	6,341	10,341
Market capitalization	5,803	10,064

[1] Foreign currencies have been converted into Canadian dollars at year-end rate.

[2] Net of debt and exchangeable bonds due in 2004 for an amount of \$540 million.

[3] Drawdowns from bank credit facilities maturing in 2004 and 2005.

Over the last few years, Pargesa has taken steps to focus on a limited number of industrial and services companies that are well positioned in their respective markets and over which the group has control, or in which it has a substantial interest. Accordingly, the Pargesa group has worked actively to turn local or regional businesses into world-class companies, sometimes accepting a dilution in the level of control.

As a result, the group’s investment portfolio has undergone a number of changes: many assets have been sold and, in some instances, significant acquisition, merger or exchange transactions have been carried out or encouraged in order to consolidate the group’s existing positions.

The group now owns, through a simple holding structure, four main investments representing more than 93 per cent of Pargesa’s adjusted net asset value, as shown in the table on the next page.

PARGESA – BREAKDOWN OF ADJUSTED NET ASSET VALUE [FLOW-THROUGH BASIS]

AS OF DECEMBER 31, 2003 [IN MILLIONS OF DOLLARS]		
	NET ASSETS [PARGESA'S SHARE]	%
Total [3.6 per cent]	2,705	39
Bertelsmann [25.1 per cent] ^[1]	1,307	19
Imerys [53.5 per cent]	1,704	24
Suez [7.2 per cent]	962	13
Other investments	176	3
Net cash and short-term assets net of long-term debt ^[2]	161	2
	7,015	100

Note: Percentage of ownership denotes the cumulative interests of Pargesa and its subsidiaries and affiliates.

Figures have been converted into Canadian dollars using an exchange rate of 1.0441.

[1] The value of the investment in the private company Bertelsmann, shown in the table above, is equivalent to Pargesa's economic interest in Bertelsmann's shareholders' equity as of December 31, 2003.

[2] Pargesa's share of net cash and short-term assets or long-term debt held by group holding companies.

At the end of December 2003, the adjusted net asset value was \$7,015 million, corresponding to a value per Pargesa share of SF3,989 (SF3,345 at the end of 2002). Pargesa's adjusted net asset value is calculated on the basis of stock market prices for the listed holdings and of the share of consolidated shareholders' equity for the unlisted holdings (as per the most recent information provided by these companies).

CASH EARNINGS

From an accounting standpoint, the implementation of the strategy of recent years has resulted in a decrease in the number of holdings accounted for under the equity method. Total and Suez, which represent 52 per cent of Pargesa's adjusted net asset value, are accounted for at cost and, accordingly, only the annual dividend received from these companies is recorded for the purpose of determining Pargesa's consolidated earnings.

The group's results can also be analysed by examining, on a flow-through basis, the operating cash earnings generated by the group's holdings. Under this method, share of operating earnings of the holdings subject to equity accounting (Imerys and Bertelsmann) is replaced by the share of dividends received from those companies. Pargesa's Board of Directors has proposed to raise the dividend from SF86 to SF92 at the May 2004 Annual General Meeting of Shareholders.

PARGESA HOLDING S.A. – CONTRIBUTION TO OPERATING CASH EARNINGS^[1]

[IN MILLIONS OF SWISS FRANCS, EXCEPT PER SHARE AMOUNTS]		2003	2002
FLOW-THROUGH CASH EARNINGS			
Imerys		41.1	34.4
Bertelsmann		89.6	99.0
Total		71.9	65.4
Suez		38.4	37.7
Cash earnings from major holdings		241.0	236.5
Contribution from other participations		6.2	6.3
Operating results of holdings		(35.0)	(23.4)
Pargesa flow-through cash earnings		212.2	219.4
Cash earnings per share		126	130
Pargesa dividend per share ^[2]		92	86

[1] See definition on page 110.

[2] Subject to approval by shareholders at the May 2004 Annual General Meeting.

CONSOLIDATED EARNINGS

Pargesa saw its operating earnings grow from SF176 million in 2002 to SF192 million in 2003. Imerys posted in 2003 an 11 per cent increase in its net operating income expressed in Euros. The contribution from Bertelsmann to operating earnings, which includes as in 2002 Pargesa's share of the preferred dividend paid by Bertelsmann, also reflects an improvement in operating results. Total paid in 2003 a higher dividend than in 2002, while the dividend paid by Suez remained the same as the previous year. Overall, the contribution from the four main holdings to operating earnings increased by SF33 million, which was partly offset by a decrease in corporate results from group holding companies.

In 2003, Pargesa recorded non-operating earnings of SF24 million, compared with a loss of SF301 million in 2002. The 2003 non-operating income reflects in particular Pargesa's share of the gain recorded by Bertelsmann on the sale of the specialty magazine group BertelsmannSpringer and on the sale of its interest in barnesandnoble.com, net of non-recurring charges. In 2002, the loss consisted primarily of Pargesa's share of an adjustment recorded by Bertelsmann in the carrying value of its interest in Zomba Music Group.

PARGESA HOLDING S.A.

DECEMBER 31 [IN MILLIONS]	2003		2002	
AS REPORTED BY PARGESA	SF	\$ ^[1]	SF	\$ ^[1]
Operating earnings	192	200	176	178
Goodwill amortization ^[2]	(8)	(9)	(8)	(9)
Non-operating earnings ^[3]	24	25	(301)	(304)
Net earnings	208	216	(133)	(135)

[1] Average Swiss franc to Canadian dollar: 1.0418 in 2003 and 1.0112 in 2002.

[2] Goodwill recorded by holding companies (Pargesa and GBL) on their direct investments.

[3] Including Pargesa's share of non-operating earnings recorded by companies accounted for under the equity method.

BERTELSMANN was affected in 2003 by the weakness of the U.S. dollar against the Euro. This primarily affected Random House and BMG. The outset of a global economic recovery observed during the year differed greatly by geographic region. While the U.S. economy recovered appreciably, especially in the second half of the year, the Euro region was slow to follow suit, in Germany in particular, where the economy remained quite stagnant.

Despite a difficult environment, operating EBITA increased 20 per cent over 2002 to €1,123 million (\$1,777 million), while operating return on sales improved from 5.1 per cent to 6.7 per cent. Major contributors to this increase were RTL Group, Arvato and DirectGroup. Total revenues for the year declined 8.3 per cent to €16.8 billion (\$26.6 billion). Adjusted for currency and portfolio impacts, the total group revenues remained quite stable as compared to 2002.

In addition, Bertelsmann recorded capital gains of €620 million (\$981 million) in 2003 primarily on the disposal of BertelsmannSpringer, the specialist publishing group, and of its position in barnesandnoble.com and of the group's Eastern European newspaper businesses. The results of the year were also affected by restructuring charges recorded at BMG, primarily as a result of the integration of the Zomba Music Group acquired in 2002, and by a €234 million (\$370 million) provision for a lawsuit from two former employees of AOL Germany against Bertelsmann. Bertelsmann has taken no reserve with respect to a legal action instituted against it in connection with Napster. Bertelsmann is of the view that the action is without merit. Net income was €154 million (\$244 million) for the year, compared with €928 million (\$1,376 million) in 2002, which included significant capital gains. Net financial debt was reduced from €2.7 billion (\$4.5 billion) in 2002 to €0.8 billion (\$1.3 billion) at the end of 2003.

TOTAL performed well in 2003, benefiting from a 5 per cent increase in its production of oil and the impact of synergy and productivity programs adopted at the time of the merger of Totalfina with Elf. This brought net operating earnings, excluding non-recurring items, to €7.3 billion (\$11.5 billion), up 17 per cent from 2002, representing on the same basis a 23 per cent increase in earnings per share due to a substantial share buy-back program.

The results for 2003 were significantly affected by the fall of the U.S. dollar against the Euro, the currency used by Total to report its financial statements. Expressed in dollars for purposes of comparison with other major oil companies, net earnings per share, excluding non-recurring items, rose 47 per cent, one of the best performances in the industry. Net income for the year, including non-recurring items, amounted to €7.0 billion (\$11.1 billion), up 18 per cent from 2002.

SUEZ posted revenues of €39.6 billion (\$62.7 billion) almost unchanged compared with 2002, despite assets disposals. Ninety per cent of 2003 revenues were generated in Europe and in North America, 80 per cent of which came from Europe. Organic growth, on the basis of the constant exchange rate and group structure, was 6.1 per cent, driven by all business sectors.

EBITDA totalled €6.0 billion (\$9.5 billion), a decrease of 17.1 per cent compared to 2002. On a constant exchange rate and group structure basis EBITDA increased by 4.9 per cent. The energy sector contributed €4.0 billion (\$6.3 billion), a decrease of 3 per cent; on a comparable basis, EBITDA from this sector increased by 8.3 per cent. The EBITDA from the environment sector increased 4.7 per cent on a comparable basis, but decreased substantially when taking into account the unfavourable foreign exchange fluctuations and the major disposals made in 2003, particularly Nalco, Northumbrian and Cespa.

The group's income was affected by the implementation of the 2003-2004 Action Plan, the principal objectives of which are the strengthening of its financial structure and the improvement in the return on capital. In addition to the disposals in the environment sector mentioned above, the group withdrew from the communications sector, disposed of several of its non-strategic assets and cancelled insufficiently profitable contracts. These steps reduced net debt from €26 billion (\$43 billion) in 2002 to €15 billion (\$24 billion) at year-end 2003 and to €13.9 billion (\$22.6 billion) by the end of February 2004.

IMERYS  Despite highly adverse conditions, including a weaker dollar and rising energy costs, Imerys improved its main financial indicators in 2003. Net operating income grew for the twelfth consecutive year and the operating margin continued to rise, reaching 13.6 per cent as compared with 12.6 per cent in 2002. Financial debt was reduced further, from 78.8 per cent of shareholders' equity at the end of December 2002 to 69.9 per cent in 2003. This performance was driven by increasing sales after two difficult years, positive changes in the price/product mix ratio, the effect of ongoing programs to reduce production costs and lower net financial expenses.

In Pigments for Paper, global demand for printing and writing paper showed a modest recovery in 2003, but with strong geographical disparities. In Specialty Minerals, market demand also varied, improving in the construction and floor tile segments but sluggish in tableware and automobile markets. In Refractories, many end markets continued to perform poorly, particularly in metallurgy, and conditions were difficult for the Abrasives segment as well. For the Building Materials segment, the French terracotta tile market grew in 2003 with expanding renovation activities, while terracotta products continued to gain ground against concrete products.

Net income for Imerys was €160 million (\$253 million), an increase of 12 per cent over 2002.

LOOKING TO THE FUTURE

The Pargesa group plans to continue to centre its activities on a small number of large European companies and to focus on their strategic development.

BREAKDOWN OF NET EARNINGS OF PARGESA [FLOW-THROUGH BASIS]

AS OF AND FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF SWISS FRANCS ^[1]]				
	CUMULATIVE EQUITY INTEREST	PARGESA'S ECONOMIC INTEREST	CONTRIBUTION TO PARGESA'S EARNINGS	
			2003	2002
	%	%		
Contribution from principal holdings				
Equity accounted				
Imerys [industrial]	53.5	39.6	118	101
Bertelsmann [media and entertainment]	25.1	12.0	(5)	(14)
Non-consolidated				
Total [energy]	3.6	1.7	72	65
Suez [energy, water, waste services]	7.2	3.5	38	38
			223	190
Other holdings			3	8
Operating earnings from holding companies			(34)	(22)
Operating earnings before goodwill amortization			192	176
Goodwill amortization ^[2]			(8)	(8)
Non-operating earnings			24	(301)
Net earnings in Swiss francs			208	(133)
Net earnings in Canadian dollars ^[3]			217	(135)

[1] Earnings as shown in the table are those reported by Pargesa, and do not include adjustments made by Power Financial to conform with Canadian GAAP.

[2] Goodwill amortization refers to the goodwill amortization recorded by holding companies on their investments.

[3] Average Swiss franc to Canadian dollar: 1.0418 in 2003 and 1.0112 in 2002.

SUMMARY OF FINANCIAL DATA

1 – SELECTED ANNUAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2003	2002	2001
Revenues	15,369	18,603	17,861
Operating earnings before other items ^[1]			
in millions of dollars	1,261	1,074	906
per share – basic	3.43	2.97	2.53
Net earnings ^[2]			
in millions of dollars	2,023	988	879
per share – basic	5.62	2.72	2.44
per share – diluted	5.56	2.68	2.41
Consolidated assets	105,960	68,319	67,069
Consolidated assets and assets under administration ^[3]	242,333	172,815	180,980
Consolidated long-term liabilities			
Long-term debt	4,198	2,313	2,437
Shareholders' equity	8,137	6,855	5,828
Book value per share	19.77	16.73	14.65
Number of common shares outstanding [millions]	348.4	346.9	346.7
Dividends per share [declared]			
Common shares	1.2050	1.0400	0.8800
First preferred shares ^[4]			
Series A	0.8208	0.7341	1.0513
Series C	1.3000	1.3000	1.3000
Series D	1.3750	1.3750	1.3750
Series E	1.3125	1.3125	0.22654
Series F	1.4750	0.8012	–
Series H	1.4375	0.20873	–
Series I	1.3305	–	–
Series J	1.0422	–	–

[1] Operating earnings and operating earnings per share are non-GAAP financial measures. Please refer to comments previously made in this report.

[2] Net earnings include other income in addition to operating earnings and, in 2001, direct and indirect goodwill amortization expense of \$107 million or \$0.31 per share (goodwill is no longer amortized since 2002) as well as the Corporation's share of specific items recorded by Lifeco for \$189 million or \$0.55 per share.

[3] Assets under administration include segregated funds of Lifeco and Investors Group's mutual fund assets, at market values. The market value of Lifeco's segregated funds was \$62 billion in 2003, \$36 billion in 2002 and \$39 billion in 2001; the increase in 2003 includes the impact of the acquisition of Canada Life. Investors Group's mutual fund assets include those of Mackenzie, which was acquired in 2001; mutual fund assets were \$75 billion in 2003, \$68 billion in 2002 and \$75 billion in 2001.

[4] The Series B, First Preferred Shares were redeemed in May 2003.

2 – SUMMARY OF QUARTERLY RESULTS

[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2003				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SELECTED QUARTERLY INFORMATION								
Revenues	4,794	4,445	(59)	6,178	4,821	4,156	4,912	4,714
Operating earnings								
in millions of dollars	263	325	319	354	237	297	272	268
per share – basic	0.71	0.88	0.87	0.96	0.65	0.83	0.75	0.74
Other income								
in millions of dollars	(10)	–	808	(36)	–	–	(62)	(24)
per share – basic	0.03	–	2.32	(0.10)	–	–	(0.18)	(0.07)
Net earnings								
in millions of dollars	253	325	1,127	318	237	297	210	244
per share – basic	0.68	0.88	3.19	0.86	0.65	0.83	0.57	0.67
per share – diluted	0.68	0.87	3.15	0.85	0.65	0.82	0.56	0.66

EARNINGS – FOURTH QUARTER OF 2003  Operating earnings for the fourth quarter of 2003 were \$354 million or \$0.96 per share, compared with \$268 million or \$0.74 per share for the same period in 2002. The contribution from subsidiaries and affiliate to operating earnings increased by 36 per cent from \$271 million to \$369 million, mainly driven by higher contributions from Lifeco and Investors Group.

Other income was a charge of \$36 million or \$0.10 per share in the fourth quarter of 2003, compared with a charge of \$24 million or \$0.07 per share in the fourth quarter of 2002.

As a result, net earnings for the quarter were \$318 million or \$0.86 per share, compared with \$244 million or \$0.67 per share in the fourth quarter of 2002.

POWER FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
ASSETS		
Cash and cash equivalents	3,646	2,437
Investments [Note 3]		
Shares	3,073	1,507
Bonds	54,208	33,766
Mortgages and other loans	15,616	8,399
Loans to policyholders	6,566	6,177
Real estate	1,597	1,270
	81,060	51,119
Funds withheld by ceding insurers	4,142	4,786
Investment in affiliate, at equity [Note 4]	1,550	1,558
Goodwill and intangible assets [Note 5]	10,210	5,077
Future income taxes [Note 6]	1,190	364
Other assets [Note 7]	4,162	2,978
	105,960	68,319
LIABILITIES		
Policy liabilities		
Actuarial liabilities [Note 8]	66,999	44,508
Other	4,499	3,788
Deposits and certificates	729	709
Funds held under reinsurance contracts [Note 14]	4,655	—
Long-term debt [Note 9]	4,198	2,313
Future income taxes [Note 6]	1,063	511
Other liabilities [Note 10]	8,722	5,014
	90,865	56,843
Non-controlling interests [Note 11]	6,958	4,621
SHAREHOLDERS' EQUITY		
Stated capital [Note 12]		
Preferred shares	1,250	1,050
Common shares	556	548
Retained earnings	6,284	4,758
Foreign currency translation adjustments	47	499
	8,137	6,855
	105,960	68,319

Approved by the Board of Directors

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31		
[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]		
	2003	2002
REVENUES		
Premium income	12,441	11,187
Bulk reinsurance – initial ceded premiums [Note 14]	(5,372)	–
	7,069	11,187
Net investment income	4,773	3,813
Fee income	3,527	3,603
	15,369	18,603
EXPENSES		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds [Note 14]	8,346	12,593
Commissions	1,376	1,199
Operating expenses	2,726	2,452
Interest expense [Note 9]	223	156
	12,671	16,400
	2,698	2,203
Share of earnings of affiliate [Note 4]	88	80
Other income, net [Note 15]	783	(85)
Earnings before income taxes and non-controlling interests	3,569	2,198
Income taxes [Note 6]	850	749
Non-controlling interests [Note 11]	696	461
Net earnings	2,023	988
Earnings per common share [Note 18]		
Basic	5.62	2.72
Diluted	5.56	2.68

POWER FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Retained earnings, beginning of year	4,758	4,202
Add		
Net earnings	2,023	988
Deduct		
Dividends		
Preferred shares	67	45
Common shares	420	361
Other	10	26
	497	432
Retained earnings, end of year	6,284	4,758

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
OPERATING ACTIVITIES		
Net earnings	2,023	988
Non-cash charges [credits]		
Increase in policy liabilities	(4,259)	954
Increase in funds withheld by ceding insurers	644	(309)
Increase in funds held under reinsurance contracts	4,655	
Amortization and depreciation	124	109
Future income taxes [recovery]	(105)	87
Non-controlling interests	696	461
Dilution gain	(894)	—
Other	(1,279)	(502)
Change in non-cash working capital items	929	(36)
Cash from operating activities	2,534	1,752
FINANCING ACTIVITIES		
Dividends paid		
By subsidiaries to non-controlling interests	(263)	(200)
Preferred shares	(64)	(42)
Common shares	(404)	(347)
	(731)	(589)
Issue of common shares	8	1
Issue of preferred shares	350	300
Redemption of preferred shares	(150)	
Issue of common shares by subsidiaries	142	28
Repurchase of common shares by subsidiaries	(158)	(169)
Issue of Great-West Life Capital Trust securities		350
Redemption of preferred shares by subsidiaries	(102)	(350)
Repayment of bankers' acceptances		(497)
Repayment of commercial paper and other loans	(46)	(60)
Issue of long-term debt	1,746	175
Repayment of long-term debt	(403)	(191)
Other	91	66
	747	(936)
INVESTMENT ACTIVITIES		
Bond sales and maturities	41,425	21,498
Mortgage loan repayments	1,890	1,695
Sale of shares	1,256	499
Proceeds from securitizations	127	217
Change in loans to policyholders	(626)	(4)
Change in repurchase agreements	93	108
Acquisition of Canada Life Financial Corporation [Note 2]	(1,826)	
Investment in bonds	(42,340)	(22,672)
Investment in mortgage loans	(1,935)	(1,270)
Investment in shares	(552)	(654)
Other	416	84
	(2,072)	(499)
Increase in cash and cash equivalents	1,209	317
Cash and cash equivalents, beginning of year	2,437	2,120
Cash and cash equivalents, end of year	3,646	2,437
SUPPLEMENTAL CASH FLOW INFORMATION		
Income taxes paid	611	658
Interest paid on long-term debt	194	147

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include the accounts of the Corporation, its subsidiaries and its affiliate.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in those statements and accompanying notes. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results may differ from such estimates.

The principal operating subsidiaries of the Corporation are: (a) Great-West Lifeco Inc. (Lifeco) (direct interest of 70.4%, 2002 – 78.5%), which holds 100% of the common shares of Great-West Life & Annuity Insurance Company (GWL&A) and 100% of the common shares of The Great-West Life Assurance Company (Great-West Life), which in turn holds 100% of the common shares of Canada Life Financial Corporation (Canada Life) and 100% of the common shares of London Insurance Group Inc. (LIG) which itself holds 100% of London Life Insurance Company and (b) Investors Group Inc. (Investors Group) (direct interest of 56.0%, 2002 – 56.1%), which holds 100% of the common shares of Mackenzie Financial Corporation (Mackenzie). Investors Group holds 4.2% (2002 – 4.4%) of the common shares of Lifeco, and Great-West Life holds 3.5% of Investors Group. The Corporation accounts for its investment in its affiliate, Parjointco N.V., using the equity method.

REVENUE RECOGNITION  Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

The Corporation premium revenues, total paid or credited to policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

Fee and other income primarily includes fees earned from the management of segregated fund assets, fees earned on the administration of administrative services only (ASO) Group health contracts, and fees earned from investment management services.

Management and certain administration fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis when the service is performed. Distribution revenues are recognized on a trade basis.

CASH AND CASH EQUIVALENTS  For purposes of the statement of cash flows, cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities.

INVESTMENTS  Investments, other than those held by Lifeco, are accounted for as follows: investments in shares are carried at cost. Where there has been a loss in value that is other than a temporary decline, a write-down is made to recognize the loss. Bonds, mortgages and other loans are valued at amortized cost plus accrued interest less provisions for losses. Real estate investments are valued at cost less provisions for losses.

Investments held by Lifeco are accounted for as follows: investments in shares are carried at cost plus a moving average market value adjustment of \$36 million (2002 – \$28 million). Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to earnings on a declining balance basis. Market values for public shares are generally determined by the closing sale price of the security on the exchange where it is principally traded. Market values for shares for which there is no active market are determined by management.

Investments in bonds and mortgage loans are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized over the period to maturity of the security sold.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of \$103 million (2002 – \$82 million). Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to earnings on a declining balance basis. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisals and current market data available. Appraisals of all properties are conducted at least once every three years by qualified appraisers.

Effective July 1, 2002, Lifeco has implemented revised Office of the Superintendent of Financial Institutions Canada rates used to calculate the moving average market value adjustment for shares and real estate. The rate used to adjust shares towards market value has been changed from 15% per annum to 5% per quarter, and the rate used to adjust real estate towards market value has been changed from 10% per annum to 3% per quarter. This change in accounting estimate has been applied prospectively and did not have a material effect on the financial statements of the Corporation.

Net investment income includes the amortization of net deferred realized gains on portfolio investments sold and net unrealized gains on shares and real estate investments of \$328 million (2002 – \$220 million).

SECURITIZATIONS  Investors Group periodically transfers mortgages and personal loans to commercial paper conduits that in turn issue securities to investors. Investors Group retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. Investors Group also transfers NHA-insured mortgages through the issuance of mortgage-backed securities.

Transfers of loans are treated as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. The loans are removed from the consolidated balance sheet and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred. The carrying value is allocated between the assets sold and the retained interests in proportion to their fair values at the date of transfer. To obtain the fair value of Investors Group's retained interests, quoted market prices are used if available. However, quotes are generally not available for retained interests, so Investors Group estimates fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, expected credit losses and discount rates commensurate with the risks involved. Retained interests are reviewed quarterly for impairment. Investors Group continues to service the loans transferred. As a result, a servicing liability is also recognized and amortized over the servicing period as servicing fees.

For all transfers of loans, gains and losses on sale and servicing fee revenues are reported in investment income in the consolidated statement of earnings. The retained interests in the securitized loans are recorded in other assets, and the servicing liability is recorded in other liabilities on the consolidated balance sheet.

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

DEFERRED SELLING COMMISSIONS Commissions paid by Investors Group on the sale of certain mutual fund products are deferred and amortized against related fee income over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over the term of the deposit with a maximum amortization period of five years.

GOODWILL AND INTANGIBLE ASSETS Effective January 1, 2002, the Corporation adopted the recommendations of the *Canadian Institute of Chartered Accountants Handbook* Section 3062 – Goodwill and Other Intangible Assets. Under this standard, goodwill and intangible assets with an indefinite life are no longer amortized but must be reviewed for impairment at least annually in addition to a transitional impairment test upon adoption. No impairment loss resulted from the transitional or annual impairment testing.

STOCK-BASED COMPENSATION PLANS Effective January 1, 2002, the Corporation adopted the recommendations of *CICA Handbook* Section 3870 – Stock-based Compensation and Other Stock-based Payments. Under this standard, all stock-based payments to non-employees, as well as direct award of stock and stock appreciation rights to employees, must be accounted for using a fair value-based method of accounting. This standard does not require the use of the fair value-based method to account for all other stock-based transactions with employees. The Corporation has chosen to account for stock-based compensation using the intrinsic value method. When the fair value-based method of accounting is not used for stock-based transactions with employees, pro forma net income and pro forma earnings per share must be disclosed as if the fair value-based method of accounting had been used to account for stock-based compensation cost. Had the fair value-based accounting method been applied to stock options granted in the year, net earnings would have been reduced by approximately \$6 million (2002 – \$1 million) and earnings per common share would have been reduced by less than \$0.02 (2002 – \$0.01). The fair value of options granted by the Corporation was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield 2.7%, expected volatility 14.8%, risk-free interest rate 4.96% and expected life of 7 years.

REPURCHASE AGREEMENTS Lifeco enters into repurchase agreements with third-party broker-dealers in which Lifeco sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

DERIVATIVE FINANCIAL INSTRUMENTS Derivative financial instruments are utilized by the Corporation in the management of interest rate, foreign exchange and equity market exposures. The Corporation's policy is not to utilize derivative financial instruments for speculative purposes.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to assets under management. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The accounting policies used for derivative financial instruments held for hedging purposes correspond to those of the underlying hedged position. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instruments, any realized or unrealized gain or loss on such derivative instruments is immediately recognized in income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Interest rate swaps are used to hedge interest rate risk related to asset and liability management. These swap agreements require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based. Net investment income is adjusted to reflect the exchange of payments under the interest rate swaps.

Written call options are used in conjunction with interest rate swaps to effectively convert convertible fixed rate bonds to non-convertible variable rate bonds as part of the Corporation's overall assets/liability matching program. The written call option hedges the Corporation's exposure to the convertibility feature on the bonds. Any premiums received are recognized in net investment income over the life of the option. Gains and losses realized upon exercise of the option are amortized into income over the remaining term of the original hedged item.

Put options are purchased to protect against significant decreases in equity markets. Premiums paid are amortized to net investment income over the life of the options. Gains and losses realized upon exercise of the option are recognized in net investment income.

Cross-currency swaps are used to hedge foreign currency risk related to asset and liability management. Under these swaps, principal amounts and fixed and floating interest payments may be exchanged in different currencies. The carrying value on the balance sheet is adjusted to reflect the amount of the currency swapped and interest income is adjusted to reflect the interest receivable and interest payable under the swaps. The Corporation also enters into certain foreign exchange forward contracts to hedge the translation of its foreign revenues as well as a portion of both operating results and net investment in its foreign operations. The realized gains and losses on contracts related to revenues are recognized in net investment income as the contracts are settled. Realized gains, net of tax, were \$73 million in 2003 (\$13 million in 2002). The realized and unrealized gains and losses on contracts related to net investment in foreign operations are deferred in the shareholders' equity section of the consolidated balance sheet.

Equity index swaps are used to hedge certain product liabilities that are marked to market with realized and unrealized gains and losses included in net investment income offsetting the respective realized and unrealized gains and losses on the underlying product liabilities and a corresponding market value adjustment in the amounts paid or credited to policyholders. Equity index swaps are also used as substitutes for cash instruments. These equity index swaps are marked to market with realized and unrealized gains and losses included in net investment income.

The Corporation also enters into equity index swaps to offset changes that affect fee income earned on its mutual fund assets under management. The swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Corporation designates its equity swap agreements as hedges of the anticipated revenue stream and accounts for them on the accrual basis. Management fee income is adjusted to include the payments made or received under the equity index swaps.

The Corporation also manages its exposure to market risk on its securities by either entering into forward sale contracts, purchasing a put option or by simultaneously purchasing a put option and writing a call option on the same security. The Corporation designates these contracts as hedges of the specified securities. Any unrealized gains and losses on the forward sales and options are accounted for on the deferral basis where gains and losses, including any premiums paid or received, are recognized in net investment income and other on a basis consistent with the related securities.

The Corporation acts as a counterparty to forward contracts used in trading activities. As at December 31, 2002, the Corporation had equity-linked forward contracts outstanding with a notional amount of \$1,618 million, expiring January 9, 2003. Unrealized gains and losses on these contracts have been reported on a net basis in the Corporation's consolidated financial statements since the Corporation has both the legal right and intent to settle these amounts simultaneously with the related on-balance sheet asset or liability. The credit risk exposure arising from these forward contracts is eliminated by the ability of the Corporation to settle on a net basis.

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

FOREIGN CURRENCY TRANSLATION 🏰 All assets and liabilities denominated in foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. The Corporation follows the current rate method of foreign currency translation for its net investments in self-sustaining foreign operations. All income and expenses are translated at average rates prevailing during the year. Exchange gains and losses are included in earnings except those related to self-sustaining operations and financing related thereto, which are deferred in the shareholders' equity section of the consolidated balance sheet.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS 🏰 The Corporation maintains defined benefit pension plans for certain of its employees and agents. The plans provide pension based on length of service and final average earnings. The benefit obligation is actuarially determined and accrued using the projected benefit method pro-rated on service. Pension charge or credit consists of the aggregate of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on the accrued benefit obligation less expected returns on plan assets which are valued at fair value, and the amortization of actuarial gains or losses over the expected average remaining service life of employees.

The Corporation also has unfunded supplementary pension plans for certain executives. Pension expense related to current services is charged to earnings in the period during which the services are rendered.

The Corporation also provides certain post-retirement health care and life insurance benefits to eligible retirees, agents and their dependants. The cost of the benefits is actuarially determined and accrued using the projected benefit method pro-rated on service. The current cost of post-retirement health and life benefits is charged to earnings in the period during which the services are rendered.

COSTS ASSOCIATED WITH EXIT AND DISPOSAL ACTIVITIES 🏰 In March 2003, the CICA issued Emerging Issues Committee (EIC) Abstract EIC-135 Accounting for Costs Associated with Exit and Disposal Activities (Including Costs Incurred in a Restructuring) for restructurings initiated after March 31, 2003. The standard replaces EIC-60 Liability Recognition for Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) and requires recognition of integration and restructuring costs in income when they are incurred. See Note 16 for the impact of this standard on the financial statements of the Corporation.

LOANS TO POLICYHOLDERS 🏰 Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies.

FUNDS WITHHELD BY CEDING INSURERS/FUNDS HELD UNDER REINSURANCE CONTRACTS 🏰 Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. Lifeco records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited to Lifeco by the ceding insurer.

FUTURE ACCOUNTING CHANGES 🏰 **STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS** Effective January 1, 2004, CICA 3870, Stock-based Compensation and Other Stock-based Payments was amended to require expense treatment for all stock-based compensation and payments. Previously the standard encouraged, but did not require, the use of a fair value-based method to account for stock-based transactions with employees. On January 1, 2004, the Corporation will adopt the amended standard retroactively without restatement of prior periods for all stock-based compensation and payments to employees. The impact of adopting the new recommendations in the Corporation's consolidated financial statements will not be material.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

FUTURE ACCOUNTING CHANGES  **HEDGING RELATIONSHIPS** Accounting Guideline 13 – Hedging Relations (AcG-13) specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation, and effectiveness of hedges and the discontinuance of hedge accounting. Subsequent to January 1, 2004, derivatives that do not qualify for hedge accounting will be carried at fair value on the consolidated balance sheet, and changes in fair value will be recorded in the consolidated statement of earnings. Non-qualifying derivatives will continue to be utilized on a basis consistent with the risk management policies of the Corporation and will be monitored by the Corporation for effectiveness as economic hedges even if the specific hedge accounting requirements of AcG-13 are not met. The Corporation has reassessed its hedging relationships as at January 1, 2004 and has determined that the impact of adopting the new recommendation will not be material.

2. ACQUISITION OF CANADA LIFE FINANCIAL CORPORATION

On July 10, 2003, Lifeco acquired all of the outstanding common shares of Canada Life, the parent company of The Canada Life Assurance Company, that were not already beneficially owned by Lifeco at a price of \$44.50 per Canada Life common share, representing an aggregate transaction value of \$7.2 billion, including transaction costs.

The acquisition was completed by Lifeco issuing 55,958,505 common shares at a price of \$37.556 per common share which represents the weighted-average trading price of Lifeco common shares on the last five trading days prior to February 17, 2003, the effective date of the transaction agreement, 23,868,131 Lifeco 4.80% Non-Cumulative First Preferred Shares, Series E and 7,957,006 Lifeco 5.90% Non-Cumulative First Preferred Shares, Series F, both at a price of \$25.00 per preferred share and \$4.219 billion in cash. The 607,712 common shares of Canada Life that were beneficially owned by Lifeco had a carrying value of \$21 million as at the date of the acquisition.

Vested stock options on 2,766,834 Canada Life common shares, outstanding at acquisition were exchanged for an equivalent value of Lifeco stock options on 3,278,421 Lifeco common shares at exercise prices based on a value of \$37.556 for each Lifeco common share and \$44.50 for each Canada Life common share. These options immediately vested and had an expiry date of August 25, 2003 and were essentially all exercised between July 10 and August 25, 2003.

On July 10, 2003, to support the financing of the transaction, the Corporation invested \$800 million to purchase 21,301,523 common shares of Lifeco from treasury via private placement. Investors Group Inc. also invested \$100 million by purchasing 2,662,690 Lifeco common shares from treasury via private placement.

Lifeco also entered into an arrangement with a Canadian chartered bank (the Bank) pursuant to which the Bank agreed to underwrite a credit facility in favour of Lifeco, Great-West Life, or one or more of its subsidiaries. The credit facility originally provided a one-year bank facility of up to \$1,400 million, and also up to \$600 million of five-year term financing. The five-year term financing is syndicated to a group of international financial institutions. The outstanding loan balances under these facilities on December 31, 2003 were \$0 and \$596 million, respectively.

Immediately after the acquisition, Lifeco transferred its ownership of Canada Life common shares to Great-West Life, at cost.

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. ACQUISITION OF CANADA LIFE FINANCIAL CORPORATION [CONTINUED]

The preliminary allocation of the purchase price is summarized as follows:

[IN MILLIONS OF DOLLARS]	PARTICIPATING ACCOUNT	SHAREHOLDERS' ACCOUNT	TOTAL
VALUE OF ASSETS ACQUIRED			
Cash and certificates of deposit	251	2,142	2,393
Bonds	4,031	18,578	22,609
Mortgage loans	1,042	6,358	7,400
Stocks	694	757	1,451
Real estate	157	812	969
Loans to policyholders	716	339	1,055
Other invested assets	9	458	467
Intangible assets	—	870	870
Other assets	121	1,550	1,671
	7,021	31,864	38,885
VALUE OF LIABILITIES ASSUMED			
Policy liabilities	6,588	24,979	31,567
Commercial paper and other loans	—	594	594
Income taxes payable	39	74	113
Net deferred gains on portfolio investments sold	332	842	1,174
Other liabilities	19	1,653	1,672
Non-controlling interests	—	492	492
Participating policyholder surplus	43	—	43
Preferred shares	—	162	162
	7,021	28,796	35,817
FAIR VALUE OF NET ASSETS ACQUIRED	—	3,068	3,068
Total purchase consideration:			
Cash			4,219
Lifeco common shares			2,102
Lifeco 4.80% Preferred Shares, Series E			597
Lifeco 5.90% Preferred Shares, Series F			199
Fair value of Lifeco options exchanged for Canada Life options			10
Value of Canada Life common shares already owned			21
Transaction and related costs, net of income taxes			23
			7,171
GOODWILL ON ACQUISITION			4,103

The amounts assigned to the assets acquired and liabilities assumed and associated goodwill and intangible assets may be adjusted when the allocation process has been finalized. The acquired intangible assets include customer contract related intangible assets that are subject to amortization and brands and customer contract related intangible assets that are not subject to amortization (see Note 7). Included in other liabilities assumed are accruals for Canada Life costs of \$412 million related to planned exit and consolidation activities involving operations and systems, compensation costs and facilities (see Note 16).

Results of Canada Life are included in the Consolidated Statement of Earnings from the date of acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENTS

[IN MILLIONS OF DOLLARS]				
	CARRYING VALUE			
	HELD BY LIFECO	HELD BY THE CORPORATION AND OTHER SUBSIDIARIES	TOTAL	ESTIMATED MARKET VALUE
2003				
Shares	2,961	112	3,073	3,411
Bonds	54,208	—	54,208	55,695
Mortgages and other loans	15,088	528	15,616	16,186
Loans to policyholders	6,566	—	6,566	6,566
Real estate	1,594	3	1,597	1,769
	80,417	643	81,060	83,627
2002				
Shares	1,348	159	1,507	1,608
Bonds	33,764	2	33,766	35,335
Mortgages and other loans	7,850	549	8,399	8,903
Loans to policyholders	6,177	—	6,177	6,177
Real estate	1,267	3	1,270	1,484
	50,406	713	51,119	53,507

TERM TO MATURITY AND INTEREST RANGE OF BONDS AND MORTGAGE LOANS
[BEFORE ALLOWANCE FOR CREDIT LOSSES]

[IN MILLIONS OF DOLLARS]					
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL	EFFECTIVE INTEREST RATE RANGES
2003					%
Bonds	5,767	13,358	35,231	54,356	0.6-19.9
Mortgage loans	468	5,684	9,529	15,681	3.6-13.8
2002					
Bonds	3,663	8,818	21,358	33,839	1.2-14.5
Mortgage loans	399	4,735	3,380	8,514	3.7-14.0

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENTS [CONTINUED]

CHANGES IN THE ALLOWANCE FOR CREDIT LOSSES

[IN MILLIONS OF DOLLARS]	2003	2002
Balance, beginning of year	188	167
Acquisition of Canada Life	111	—
Increase [decrease] in provisions for credit losses	(4)	35
Write-offs	(55)	(25)
Other	(27)	11
Balance, end of year	213	188

The allowance for credit losses includes general provisions, established at a level that, together with the provision for future credit losses included in actuarial liabilities, reflects management's estimates of potential future credit losses.

Also included in mortgages and other loans are modified/restructured loans that are performing in accordance with their current terms amounting to \$112 million (2002 – \$183 million).

Investments in real estate include an asset value allowance, which provides for deterioration of market values associated with real estate held for investment amounting to \$22 million (2002 – \$25 million).

Included in investments are the following:

IMPAIRED LOANS

[IN MILLIONS OF DOLLARS]	2003	2002
Bonds	223	125
Mortgage loans	12	13
Foreclosed real estate	1	3
	236	141

Impaired loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine impaired status. Loans are classified as non-accrual when:

- [1] payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or
- [2] the Corporation no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or
- [3] modified/restructured loans are not performing in accordance with the contract.

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

3. INVESTMENTS [CONTINUED]

SECURITIZATIONS  Investors Group securitized the following loans with gains, net of transactions costs, being recognized in net investment income:

[IN MILLIONS OF DOLLARS]	2003		2002	
	PRINCIPAL AMOUNT SECURITIZED	NET GAIN	PRINCIPAL AMOUNT SECURITIZED	NET GAIN
Residential mortgages	122	1	131	2
NHA-insured mortgages	6	—	58	—
Personal investment loans	—	—	32	2

Investors Group's retained interest in the securitized loans includes cash reserve accounts and rights to future excess spread. This retained interest is subordinated to the interests of the related commercial paper conduits and mortgage-backed securities holders (the "Purchasers"). The Purchasers do not have recourse to Investors Group's other assets for any failure of the borrowers to pay when due.

The key economic assumptions used to value the retained interests at the date of securitization issuances for transactions completed during 2003 and 2002 were as follows:

	RESIDENTIAL MORTGAGES	NHA- INSURED MORTGAGES
2003	%	%
Weighted-average		
Remaining service life [in years]	2.4	5.0
Interest rate	5.25	4.93
Coupon rate of securities issued	4.29	4.32
Prepayment rate	15.00	— ^[1]
Discount rate	5.15	4.60
Servicing fees	0.25	0.15
Expected credit losses	0.05	—

[1] NHA-insured mortgages securitized by the Corporation had no prepayment privileges.

	RESIDENTIAL MORTGAGES	NHA- INSURED MORTGAGES	PERSONAL LOANS
2002	%	%	%
Weighted-average			
Remaining service life [in years]	2.0	5.6	N/A
Interest rate	5.61	5.82	Prime +1
Coupon rate of securities issued	4.43	4.92	2.24
Prepayment rate	15.00	6.00	10.00
Discount rate	5.33	5.16	9.04
Servicing fees	0.25	0.21	0.15
Expected credit losses	0.05	—	0.15

At December 31, 2003, the current fair value of retained interests was \$13 million (2002 — \$15 million). The sensitivity to immediate 10% and 20% adverse changes to key assumptions was considered to be immaterial.

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENTS [CONTINUED]

The total loans reported by Investors Group, the securitized loans serviced by Investors Group, as well as cash flows related to securitization arrangements are as follows:

[IN MILLIONS OF DOLLARS]	2003	2002
Mortgages	981	1,153
Personal loans	216	236
	1,197	1,389
Less securitized loans serviced	669	840
Total on-balance sheet loans	528	549
Proceeds from new securitizations	127	217
Cash flows received on retained interests	6	4

4. INVESTMENT IN AFFILIATE AT EQUITY

[IN MILLIONS OF DOLLARS]	2003	2002
	PARJOINTCO N.V. ^[1]	
Carrying value, beginning of year	1,558	1,406
Share of operating earnings	88	80
Share of Pargesa's non-operating earnings	(3)	(87)
Foreign currency translation adjustments	(51)	210
Dividends	(42)	(36)
Other, net	—	(15)
Carrying value, end of year	1,550	1,558
Share of equity, end of year	1,533	1,540

[1] Parjointco N.V., 50% held by the Corporation, held a voting interest of 61.4% [2002 – 61.4%] and an equity interest of 54.4% [2002 – 54.6%] in Pargesa Holding S.A.

5. GOODWILL AND INTANGIBLE ASSETS

A summary of changes in the Corporation's goodwill and intangible assets is as follows:

	GOODWILL	INTANGIBLE ASSETS	TOTAL
Balance, beginning of year	3,688	1,389	5,077
Acquisition of Canada Life	4,103	870	4,973
Effect of repurchase of common shares by subsidiaries	152	—	152
Other	9	(1)	8
Balance, end of year	7,952	2,258	10,210

Intangible assets represent the fair value of mutual fund management contracts, trade names, brands and trademarks and the shareholders' portion of acquired future participating profits. The intangible assets include indefinite life intangible assets (\$1,983 million) that are not subject to amortization, as well as finite life intangible assets (\$275 million) amortized over a period of 20 years.

6. INCOME TAXES

The following table reconciles the statutory and effective tax rates:

	2003	2002
Combined basic Canadian federal and provincial tax rates	36.1%	39.6%
Non-taxable investment income	(3.3)	(3.8)
Earnings of affiliated company	(0.8)	(0.1)
Lower effective tax rates on income not subject to tax in Canada	(1.7)	(2.2)
Dilution gain	(9.0)	—
Miscellaneous including Large Corporation Tax	2.5	0.6
	23.8%	34.1%
[IN MILLIONS OF DOLLARS]		
Components of income tax expense are:		
Current income taxes	955	662
Future income taxes [recovery]	(105)	87
	850	749
Future income taxes consist of the following temporary differences:		
Policy liabilities	—	31
Loss carry forwards	257	—
Restructuring charges	20	41
Portfolio investments	397	199
Other future income tax assets	516	93
Future income tax assets	1,190	364
Deferred selling commissions	275	258
Policy liabilities	114	—
Intangible assets	242	216
Other future income tax liabilities	432	37
Future income tax liabilities	1,063	511

As at December 31, 2003, the Corporation has available non-capital tax loss carry forwards of approximately \$892 million (the benefit of \$749 million has been recognized in these financial statements), expiring at various dates to 2010. In addition, the Corporation has capital loss carry forwards that can be used indefinitely to offset future capital gains of approximately \$61 million.

7. OTHER ASSETS

	2003	2002
[IN MILLIONS OF DOLLARS]		
Dividends, interest and other receivables	1,760	1,022
Premiums in course of collection	448	305
Deferred selling commissions	764	727
Fixed assets, net of accumulated depreciation	428	304
Accrued pension asset [Note 17]	221	173
Other	541	447
	4,162	2,978

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ACTUARIAL LIABILITIES AND RISK MANAGEMENT

[A] NATURE OF ACTUARIAL LIABILITIES  Actuarial liabilities of Lifeco represent the amounts equal to the carrying value of the assets that, taking into account the other pertinent items on the balance sheet, will be sufficient to discharge the Corporation's obligations over the term of the liability for its insurance policies and to pay expenses related to the administration of those policies. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, actuarial liabilities have been determined in accordance with the Canadian Asset Liability Method.

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that the actuarial liabilities are adequate to cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

MORTALITY A life insurance mortality study is carried out annually, by country, for Canada and the United States. The results of this study are analysed and used to update the Corporation's experience valuation mortality tables for life insurance. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality rate. Although mortality improvements have been observed for many years, no future improvements have been assumed for life insurance valuation.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

MORBIDITY The Corporation uses industry developed experience tables modified to reflect emerging Corporation experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

INVESTMENT RETURNS The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

EXPENSES Unit expense studies are updated regularly to determine an appropriate estimate of future cost for the liability type being valued. Expense improvements are not projected. An inflation assumption consistent with the investment return is incorporated in the estimate of future cost.

POLICY TERMINATION Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Corporation has no experience with specific types of policies or its exposure is limited. The Corporation has reflected the emerging trend of lower lapsation on lapse supported benefits in its policy liabilities.

POLICYHOLDER DIVIDENDS Future policyholder dividends are included in the determination of actuarial liabilities for participating policies. The Actuary has assumed that policyholder dividends will change in the future to reflect the experience of the participating account, consistent with the participating policyholder dividend policy.

8. ACTUARIAL LIABILITIES AND RISK MANAGEMENT [CONTINUED]

[B] INTEREST RATE RISK 🌀 Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes.

[C] CREDIT RISK 🌀 Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

[D] REINSURANCE RISK 🌀 Maximum benefit amount limits (which vary by line of business) are established for life and health insurance and property and casualty insurance, and reinsurance is purchased for amounts in excess of those limits.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by \$7,329 million (2002 – \$1,379 million).

[E] FOREIGN EXCHANGE RISK 🌀 If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose the Corporation to the risk of foreign exchange losses not offset by liability decreases. Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Corporation to modify an asset position to more closely match actual or committed liability currency.

[F] LIQUIDITY RISK 🌀 Liquidity risk is the risk that the Corporation will have difficulty in raising funds to meet commitments. The liquidity needs of the Corporation are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between liability requirements and the yield of assets. Approximately 60% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.

[G] SENSITIVITY OF ACTUARIAL ASSUMPTIONS 🌀 The actuarial assumption most susceptible to change in the short term is future investment returns. One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of Lifeco of an immediate 1% increase or an immediate 1% decrease in the level of interest rates. The effect of an immediate 1% increase in interest rates would be to increase the present value of these net projected cash flows by \$43 million. The effect of an immediate 1% decrease in interest rates would be to decrease the present value of these net projected cash flows by \$153 million. The level of actuarial liabilities established under the Canadian Asset Liability Method of valuation provides for interest rate movements significantly greater than the 1% shifts shown above.

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. LONG-TERM DEBT

[IN MILLIONS OF DOLLARS]	2003	2002
POWER FINANCIAL CORPORATION		
7.65% debentures, due January 5, 2006 ^[i]	150	150
6.90% debentures, due March 11, 2033	250	
INVESTORS GROUP INC.		
Floating Bankers' Acceptance, due May 30, 2006	175	450
6.75% debentures 2001 Series, due May 9, 2011	450	450
6.58% debentures 2003 Series, due March 7, 2018	150	
6.65% debentures 1997 Series, due December 13, 2027	125	125
7.45% debentures 2001 Series, due May 9, 2031	150	150
7.00% debentures 2002 Series, due December 31, 2032	175	175
7.11% debentures 2003 Series, due March 7, 2033	150	
LIFECO		
First mortgages secured by real estate and limited recourse mortgages, repaid in 2003		122
Five-year term facility at interest rates of: Canadian 90-day Bankers' Acceptance [\$471 million]; 90-day LIBOR rate [\$125 million]	596	
Subordinated debentures due September 11, 2011 bearing a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%	278	
Series A subordinated debentures due December 11, 2013 bearing a fixed rate of 5.80% until 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%	210	
6.75% debentures due August 10, 2015, unsecured	200	200
6.14% debentures due March 21, 2018, unsecured	200	
Series B 6.40% Debentures due December 11, 2028, unsecured	101	
6.74% debentures due November 24, 2031, unsecured	200	200
6.67% debentures due March 21, 2033, unsecured	400	
7.25% subordinated capital income securities redeemable on or after June 30, 2004, due June 30, 2048. Unsecured [US \$175 million]	226	276
Other notes payable with interest of 8.0%	12	15
	4,198	2,313

[i] These debentures were effectively converted into a Swiss franc-denominated debt (SF127,518,490) bearing interest at 4.43% payable semi-annually through a ten-year, cross-currency swap expiring in 2006. The carrying value of this swap is included in Other assets.

Interest expense on long-term debt amounted to \$219 million (2002 – \$146 million).

The maximum aggregate amount of principal payments on long-term debt in each of the next five years is as follows: \$1 million in 2004; \$1 million in 2005; \$326 million in 2006; \$1 million in 2007 and \$597 million in 2008.

10. OTHER LIABILITIES

[IN MILLIONS OF DOLLARS]	2003	2002
Accounts payable, accrued liabilities and other	4,458	2,263
Net deferred gains on portfolio investments sold ^[i]	2,237	958
Income taxes payable	699	518
Repurchase agreements	503	511
Accrued pension liability [Note 17]	499	413
Dividends and interest payable	173	152
Commercial paper and other loans	153	199
	8,722	5,014

[i] The balance of net deferred gains on portfolio investments sold comprise the following:

[IN MILLIONS OF DOLLARS]	2003	2002
Shares	385	361
Bonds	1,568	539
Mortgage loans	126	34
Real estate	158	24
	2,237	958

11. NON-CONTROLLING INTERESTS

[IN MILLIONS OF DOLLARS]	2003	2002
Non-controlling interests include:		
Participating policyholders	1,582	1,491
Preferred shareholders of subsidiaries	1,855	999
Trust units issued by Great-West Life Capital Trust and Canada Life Capital Trust	466	350
Common shareholders of subsidiaries	3,055	1,781
	6,958	4,621
Earnings attributable to non-controlling interests include:		
Earnings attributable to participating policyholders	105	10
Dividends to preferred shareholders of subsidiaries	76	74
Distributions on Great-West Life Capital Trust and Canada Life Capital Trust	28	1
Earnings attributable to common shareholders of subsidiaries	487	376
	696	461

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. STATED CAPITAL

AUTHORIZED  Unlimited number of first preferred shares, issuable in series, of second preferred shares, issuable in series and of common shares.

ISSUED AND OUTSTANDING

	2003		2002	
	NUMBER OF SHARES	STATED CAPITAL	NUMBER OF SHARES	STATED CAPITAL
	[IN MILLIONS]		[IN MILLIONS]	
PREFERRED SHARES		\$		\$
Series A First Preferred Shares ^[i]	4,000,000	100	4,000,000	100
Series B First Preferred Shares ^[ii]	—	—	6,000,000	150
Series C First Preferred Shares ^[iii]	6,000,000	150	6,000,000	150
Series D First Preferred Shares ^[iv]	6,000,000	150	6,000,000	150
Series E First Preferred Shares ^[v]	8,000,000	200	8,000,000	200
Series F First Preferred Shares ^[vi]	6,000,000	150	6,000,000	150
Series H First Preferred Shares ^[vii]	6,000,000	150	6,000,000	150
Series I First Preferred Shares ^[viii]	8,000,000	200	—	—
Series J First Preferred Shares ^[ix]	6,000,000	150	—	—
		1,250		1,050
COMMON SHARES ^[x]	348,416,840	556	346,856,840	548

[i] The Series A First Preferred Shares are entitled to an annual cumulative dividend at a floating rate equal to 70% of the prime rate of two major Canadian chartered banks and are redeemable at \$25.00 per share.

[ii] During the year, the Corporation redeemed all of the 6,000,000 Series B First Preferred Shares for \$150 million.

[iii] The 5.20% Non-Cumulative First Preferred Shares, Series C are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.30 per share per annum. On and after October 31, 2007, the Corporation may redeem for cash the Series C First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed within the twelve months commencing October 31, 2007, declining by \$0.20 per share for each subsequent twelve-month period thereafter to October 31, 2011, \$25.20 if redeemed on or after October 31, 2011 and before July 31, 2012, and \$25.00 if redeemed on or after July 31, 2012. On or after July 31, 2012, the Corporation may convert each Series C First Preferred Share into that number of common shares determined by dividing \$25.00 by the greater of \$3.00 and 95% of the weighted average trading price of the common shares at such time. On or after October 31, 2012, subject to the right of the Corporation to convert into a further series of preferred shares, to redeem for cash or to find substitute purchasers for such shares, each preferred share will be convertible at the option of the holder into that number of common shares determined by dividing \$25.00 by the greater of \$3.00 and 95% of the weighted average trading price of the common shares at such time.

[iv] The 5.50% Non-Cumulative First Preferred Shares, Series D are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.375 per share per annum. On and after January 31, 2013, the Corporation may redeem for cash the Series D First Preferred Shares in whole or in part, at the Corporation's option, at \$25.00 per share together with all declared and unpaid dividends to but excluding the date of redemption.

[v] The 5.25% Non-Cumulative First Preferred Shares, Series E are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.3125 per share per annum. On and after November 30, 2006, the Corporation may redeem for cash the Series E First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to November 30, 2007, \$25.75 if redeemed thereafter and prior to November 30, 2008, \$25.50 if redeemed thereafter and prior to November 30, 2009, \$25.25 if redeemed thereafter and prior to November 30, 2010 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to but excluding the date of redemption.

12. STATED CAPITAL [CONTINUED]

- [vi] The 5.90% Non-Cumulative First Preferred Shares, Series F are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.475 per share per annum. On and after July 17, 2007, the Corporation may redeem for cash the Series F First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to July 17, 2008, \$25.75 if redeemed thereafter and prior to July 17, 2009, \$25.50 if redeemed thereafter and prior to July 17, 2010, \$25.25 if redeemed thereafter and prior to July 17, 2011 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to but excluding the date of redemption.
- [vii] The 5.75% Non-Cumulative First Preferred Shares, Series H are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.4375 per share per annum. On and after December 10, 2007, the Corporation may redeem for cash the Series H First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to December 10, 2008, \$25.75 if redeemed thereafter and prior to December 10, 2009, \$25.50 if redeemed thereafter and prior to December 10, 2010, \$25.25 if redeemed thereafter and prior to December 10, 2011 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to but excluding the date of redemption.
- [viii] During the year, the Corporation issued 8,000,000 6.00% Non-Cumulative First Preferred Shares, Series I for cash proceeds of \$200 million. The 6.00% Non-Cumulative First Preferred Shares, Series I are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.50 per share per annum. On and after April 30, 2008, the Corporation may redeem for cash the Series I First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to April 30, 2009, \$25.75 if redeemed thereafter and prior to April 30, 2010, \$25.50 if redeemed thereafter and prior to April 30, 2011, \$25.25 if redeemed thereafter and prior to April 30, 2012 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to but excluding the date of redemption.
- [ix] During the year, the Corporation issued 6,000,000 4.70% Non-Cumulative First Preferred Shares, Series J for cash proceeds of \$150 million. The 4.70% Non-Cumulative First Preferred Shares, Series J are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.175 per share per annum. On and after April 30, 2008, the Corporation may redeem for cash the Series J First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to April 30, 2009, \$25.75 if redeemed thereafter and prior to April 30, 2010, \$25.50 if redeemed thereafter and prior to April 30, 2011, \$25.25 if redeemed thereafter and prior to April 30, 2012 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to but excluding the date of redemption.

On and after April 30, 2013, the Corporation may convert each Series J First Preferred Share into that number of common shares determined by dividing \$25.00 together with all declared and unpaid dividends to the date of conversion by the greater of \$3.00 and 95% of the weighted average trading price of the common shares for the 20 trading days ending on the last trading day occurring on or before the fourth day immediately prior to the date of conversion.

On and after July 31, 2013, subject to the right of the Corporation to offer the right to convert into a further series of preferred shares, to redeem for cash or to find substitute purchasers for such shares, each Series J First Preferred Share will be convertible at the option of the holder, on the last day of January, April, July and October of each year into that number of common shares determined by dividing \$25.00 together with all declared and unpaid dividends to the date of conversion by the greater of \$3.00 and 95% of the weighted average trading price of the common shares for the 20 trading days ending on the last trading day occurring on or before the fourth day immediately prior to the date of conversion.

- [x] During the year, 1,560,000 common shares (155,000 in 2002) were issued under the Corporation's Employee Stock Option Plan for a consideration of \$8 million (\$1 million in 2002).

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. STOCK-BASED COMPENSATION

- [i] On October 1, 2000, the Corporation established a deferred share unit plan for the Directors of the Corporation to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this plan, each Director may elect to receive his or her annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Common Shares of the Corporation on the last five days of the fiscal quarter (the "value of deferred share unit"). A Director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on Common Shares, based on the value of a deferred share unit at that time. A deferred share unit shall be redeemable at the time a Director's membership on the Board is terminated or in the event of the death of a Director by a lump sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2003, the value of the deferred share units outstanding was \$1.5 million (\$0.7 million in 2002).
- [ii] Effective May 1, 2000, an Employee Share Purchase Program (ESPP) was implemented giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of Power Corporation of Canada on the open market and to have the Corporation invest, on the employee's behalf, a further amount. The amount paid on behalf of employees was \$0.1 million in 2003 (\$0.1 million in 2002).
- [iii] Under the Corporation's Employee Stock Option Plan, 8,380,800 additional shares are reserved for issuance. The plan requires that the exercise price under the option must not be less than the market value of a share on the date of the grant of the option. Options have a term of ten years and may be exercised as follows: 50% one year after the grant date, 75% two years after the grant date and 100% three years after the grant date except for a grant of 1,000,000 options in 1997 which became fully vested at the date of the grant, a grant of 1,500,000 options in 2000 which vest equally over a period of five years beginning on December 31, 2000, and a grant of 1,500,000 options in 2003 which vest as follows: 500,000 at December 31, 2005, 500,000 at December 31, 2006 and 500,000 at December 31, 2007.

A summary of the status of the Corporation's stock option plan as at December 31, 2003 and 2002, and changes during the years ended on those dates is as follows:

	2003			2002	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	
		\$		\$	
Outstanding at beginning of year	7,230,000	12.50	7,385,000	12.35	
Granted	1,500,000	43.30	—	—	
Exercised	(1,560,000)	5.29	(155,000)	5.24	
Outstanding at end of year	7,170,000	20.51	7,230,000	12.50	
Options exercisable at end of year	5,350,000	13.71	6,577,500	11.03	

The following table summarizes information about stock options outstanding at December 31, 2003:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS	WEIGHTED-AVERAGE REMAINING LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
			\$		\$
7.35 – 13.10	4,000,000	1.8	9.16	4,000,000	9.16
22.70 – 33.73	1,670,000	6.6	27.22	1,350,000	27.17
43.30	1,500,000	9.6	43.30	—	—
	7,170,000	4.5	20.51	5,350,000	13.71

14. REINSURANCE TRANSACTION

During the third quarter of 2003, Great West, London Life, and GWL&A reinsured certain blocks of individual non-participating life insurance on a yearly renewable term reinsurance basis and group life, long term disability and group annuity business, on a co-insurance/funds withheld basis. The ceded premiums of \$5,372 million associated with the transaction have been recorded on the Consolidated Statement of Earnings as a reduction to premium income with a corresponding reduction to the change in actuarial liabilities and provision for claims. For the Consolidated Balance Sheet, this transaction resulted in a reduction in policyholder liabilities of \$4,655 million and an increase in funds held under reinsurance contracts of the same amount.

15. OTHER INCOME, NET

[IN MILLIONS OF DOLLARS]	2003	2002
Share of Pargesa's non-operating earnings	(3)	(87)
Gain resulting from dilution of the Corporation's interest in Lifeco	894	
Restructuring costs [Note 16]	(31)	
Reversal of restructuring costs related to Mackenzie	25	
Other	(102)	2
	783	(85)

16. RESTRUCTURING COSTS

Following the acquisition of Canada Life on July 10, 2003, Lifeco developed a plan to restructure and exit selected operations of Canada Life. Lifeco expects the restructuring to be substantially completed by the end of 2004. Costs of \$497 million are expected to be incurred as a result and consist primarily of exit and consolidation activities involving operations and systems, compensation costs and facilities. The costs include approximately \$412 million that was recognized as part of the purchase equation of Canada Life. Costs of approximately \$85 million will be charged to income as incurred (see Note 1).

The following details the amount and status of restructuring and exit program costs:

[IN MILLIONS OF DOLLARS]									
	EXPECTED FUTURE COSTS			AMOUNT UTILIZED IN THE PERIOD ENDED DECEMBER 31, 2003			BALANCE DECEMBER 31, 2003		
	ACCRUED ON ACQUI- SITION	TO BE EXPENSED AS INCURRED	TOTAL	ACCRUED ON ACQUI- SITION	EXPENSED AS INCURRED	TOTAL	ACCRUED ON ACQUI- SITION	TO BE EXPENSED AS INCURRED	TOTAL
Costs of eliminating duplicate systems	76	42	118	4	9	13	72	33	105
Costs of exiting and consolidating operations	51	20	71	11	17	28	40	3	43
Compensation costs	245	19	264	79	5	84	166	14	180
Costs of exiting and consolidating facilities	40	4	44	—	—	—	40	4	44
	412	85	497	94	31	125	318	54	372

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Corporation maintains funded defined benefit pension plans for certain of its employees and agents as well as unfunded supplementary employee retirement plans (SERP) for certain executives. The Corporation also provides post-retirement health and life insurance benefits to eligible retirees, agents and their dependants.

[IN MILLIONS OF DOLLARS]	2003		2002	
	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS
FAIR VALUE OF PLAN ASSETS				
Balance, beginning of year	1,451		1,626	
Employee contributions	11		8	
Employer contributions	22		15	
Benefits paid	(98)		(135)	
Actual return on plan assets	278		(60)	
Acquisitions	1,171		—	
Foreign exchange	(44)		(3)	
Balance, end of year	2,791		1,451	
ACCRUED BENEFIT OBLIGATIONS				
Balance, beginning of year	1,525	295	1,476	307
Benefits paid	(102)	(14)	(140)	(10)
Current service cost	59	13	40	14
Employee contributions	11		8	
Interest cost	132	26	100	20
Actuarial [gain] loss	76	122	43	(36)
Acquisitions	1,043	132	—	—
Foreign exchange	(56)	(11)	(2)	
Balance, end of year	2,688	563	1,525	295
FUNDED STATUS				
Fund surplus [deficit] [i]	103	(563)	(74)	(295)
Unamortized net actuarial [gains] losses	65	117	142	(13)
Accrued asset [liability] [ii]	168	(446)	68	(308)
CHARGE WAS DETERMINED AS FOLLOWS				
Current service cost	59	13	40	14
Interest cost	132	26	100	20
Expected return on plan assets	(144)		(120)	
Amortization of net actuarial gains	(2)		(11)	
Amortization of net [asset] obligation at transition	1		(3)	
	46	39	6	34
SIGNIFICANT WEIGHTED AVERAGE				
ACTUARIAL ASSUMPTIONS				
Discount rate	6.17%	6.29%	6.76%	6.77%
Expected long-term rate of return on plan assets	7.22%		7.73%	
Rate of compensation increase	4.61%		5.24%	

17. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS [CONTINUED]

In determining the expected cost of health care benefit plans, it was assumed that health care costs would increase in 2003 by 7.2% to 11.0% in Canada and by 10.0% in the United States. It is assumed that these rates would gradually decrease to a level of 4.7% by 2009 in Canada and to a level of 5.25% by 2014 in the United States.

[i] The aggregate accrued benefit obligations and aggregate fair value of plan assets of individual pension plans that had accrued benefit obligations in excess of the fair value of their related plan assets at December 31, 2003 amounted to \$65 million (\$1,430 million in 2002) and \$9 million (\$1,310 million in 2002) respectively.

[ii] The net accrued asset (liability) shown above is presented in these financial statements as follows:

[IN MILLIONS OF DOLLARS]	2003			2002		
	PENSION PLANS	OTHER	TOTAL	PENSION PLANS	OTHER	TOTAL
Other assets [Note 7]	221	—	221	173	—	173
Other liabilities [Note 10]	(53)	(446)	(499)	(105)	(308)	(413)
Accrued asset [liability]	168	(446)	(278)	68	(308)	(240)

18. EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per common share computations:

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS]	2003	2002
Net earnings	2,023	988
Dividends on preferred shares	(67)	(45)
Net earnings available to common shareholders	1,956	943
Weighted number of common shares outstanding [millions]		
— basic	348.1	346.8
Exercise of stock options	7.2	7.2
Shares assumed to be repurchased with proceeds from exercise of stock options	(3.5)	(2.4)
Weighted number of common shares outstanding [millions]		
— diluted	351.8	351.6

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Corporation's financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

[IN MILLIONS OF DOLLARS]	2003		2002	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
ASSETS				
Cash and cash equivalents	3,646	3,646	2,437	2,437
Investments [excluding real estate]	79,463	81,858	49,849	52,023
Other financial assets	6,350	6,350	6,113	6,113
Total financial assets	89,459	91,854	58,399	60,573
LIABILITIES				
Policy liabilities	71,498	74,243	48,296	50,484
Deposits and certificates	729	738	709	718
Long-term debt	4,198	4,444	2,313	2,410
Other financial liabilities	10,641	10,641	3,643	3,643
Total financial liabilities	87,066	90,066	54,961	57,255

Fair value is determined using the following methods and assumptions:

The fair value of temporary financial instruments is assumed to be equal to book value due to their short-term maturities. These include cash and cash equivalents, dividends and interest receivable, and premiums in the course of collection.

Shares and bonds are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used. Mortgage loans are determined by discounting the expected future cash flows at market interest rates for loans with similar credit risk.

The fair value of policy liabilities is based on the fair value of the assets of Lifeco supporting them.

Deposit liabilities are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is determined by reference to current market prices for debt with similar terms and risks.

20. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Corporation, in the normal course of managing exposure to fluctuations in interest rates, foreign exchange rates and market risks, is party to various derivative financial instruments whose notional amount is not recorded on the balance sheet.

The following table summarizes the portfolio of off-balance sheet financial instruments at December 31:

[IN MILLIONS OF DOLLARS]	NOTIONAL AMOUNT				MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		
2003						
Interest rate contracts						
Futures – long	468			468		1
– short	334			334		(2)
Interest rate swaps	674	1,095	312	2,081	30	3
Options written	56	64		120		(5)
Options purchased	409	406	718	1,533	56	
	1,941	1,565	1,030	4,536	86	(3)
Foreign exchange contracts						
Forward contracts	2,336	250		2,586	140	100
Cross-currency swaps	107	906	971	1,984	170	131
	2,443	1,156	971	4,570	310	231
Market risk management						
Options purchased	15	48		63	1	1
Options written	18	60		78		(13)
Forward sales		17		17	1	
Equity contracts	431	28		459	67	67
	464	153		617	69	55
	4,848	2,874	2,001	9,723	465	283
2002						
Interest rate contracts						
Interest rate swaps	192	1,150	81	1,423	37	10
Options written		302		302		(6)
Options purchased	798	999		1,797		
	990	2,451	81	3,522	37	4
Foreign exchange contracts						
Forward contracts	1,285	1,098		2,383	5	(34)
Cross-currency swaps	62	606	345	1,013	17	(112)
	1,347	1,704	345	3,396	22	(146)
Market risk management						
Options purchased	22	62		84	6	6
Options written	24	78		102		(10)
Forward sales		17		17	4	4
Equity contracts	173	125		298	61	56
	219	282		501	71	56
	2,556	4,437	426	7,419	130	(86)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS [CONTINUED]

The amount subject to credit risk is limited to the current market value of the instruments which are in a gain position. The maximum credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation would receive (or pay) to terminate all agreements at year-end. However, this does not represent a gain or loss to the Corporation as the hedged position is matched to certain of the Corporation's assets and liabilities. All counterparties are highly rated financial institutions on a diversified basis.

The fair value of derivative financial instruments is based on quoted market prices, when available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

21. CONTINGENT LIABILITIES

The Corporation's subsidiaries are subject to legal actions, including proposed class actions, arising in the normal course of business. It is not expected that any of these legal actions will have a material adverse effect on the consolidated financial position of the Corporation.

At December 31, 2003, there are three proposed class actions against Great-West Life (one in each of British Columbia, Ontario and Québec) related to the availability of policyholder dividends to pay future premiums. In June 2001, London Life announced an agreement to settle proposed class actions related to the availability of policyholder dividends to pay future premiums on participating life insurance policies purchased from London Life. The agreement received final court approval in 2002. As at the date of settlement, estimated future settlement benefits of \$180 million and expenses related to the administration of the settlement in the amount of \$20 million were fully provided for in existing reserves in London Life's participating account. Actual results could differ from those estimates. There is also a proposed class action proceeding in Ontario against Lifeco, Great-West Life, LIG and London Life regarding the participation of the London Life participating policyholder account in the financing of the acquisition of LIG in 1997 by Great-West Life. These proceedings are in their early stages, and it is difficult to predict their outcome with certainty. However, based on information presently known, it is not expected that any of these proceedings will have a material adverse effect on the consolidated financial position of the Corporation.

22. THE EVENT OF SEPTEMBER 11, 2001

As part of its reinsurance business, Canada Life has special risk reinsurance contracts with other insurers and reinsurers on which it has incurred losses as a result of the event of September 11, 2001. In 2001, Canada Life set up a total provision of \$131 million pre-tax (\$85 million after-tax) relating to these claims. Canada Life's remaining net provision is \$83 million pre-tax as at December 31, 2003. The provision is recorded net of estimated reinsurance recoveries and catastrophe coverage.

Canada Life has entered into, and may in the future enter into, negotiations, arbitration proceedings or litigation with certain of its retrocessionaires in order to collect all amounts owed by such parties. Based on the information that Canada Life has to date, Canada Life believes that it will succeed in enforcing its rights in respect of each of its reinsurance agreements.

London Reinsurance Group (LRG) results in 2001 included a charge of \$82 million after-tax (\$73 million in the shareholder account and \$9 million in the participating policyholder account) relating to estimated claims provisions from the event of September 11, 2001. The payment of claims to the end of 2003 has not resulted in a change to those estimates, and no further charges have been recorded.

23. COMMITMENTS AND GUARANTEES

[A] DISCLOSURE OF GUARANTEES  The Corporation has adopted Accounting Guideline 14 (AcG-14), Disclosure of Guarantees, effective January 1, 2003, which identifies disclosure requirements for certain guarantees or groups of similar guarantees, even when the likelihood of the guarantor having to make any payments is slight.

Other than the following, the Corporation has not provided any guarantees.

[B] SYNDICATED LETTERS OF CREDIT  Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on LRG's, a subsidiary of London Life, behalf from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing US \$1,100 million in letters of credit capacity. The facility has two tranches: One tranche, arranged in 2003 in the amount of US \$730 million, is for a one-year term to November 23, 2004. The second tranche arranged in 2002 in the amount of US \$370 million, has a three-year term expiring November 15, 2005. Under the terms and conditions of the facility, collateralization may be required dependant on the future credit ratings of specific LRG subsidiaries and London Life or if a default under the letters of credit agreement occurs. LRG has issued US \$925 million in letters of credit under the facility as at December 31, 2003. Subsequent to December 31, 2003, two transactions resulted in the reduction of total issued letters of credit under this facility to US \$818 million as at January 5, 2004. LRG had issued US \$1,079 million under a previous letter of credit facility at December 31, 2002. In addition, LRG has other bilateral letter of credit facilities totalling US \$40 million (2002 – US \$40 million). Bonds and debentures in the amount of C \$4 million (2002 – C \$11 million) have been pledged to support these letters of credit.

[C] CROWN LIFE ACQUISITION AGREEMENTS  As part of the 1999 acquisition by Canada Life of the majority of Crown Life Insurance Company's (Crown Life) insurance operations, Canada Life has the option, or may be obligated, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, subject to certain conditions, in which case Canada Life would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

24. SEGMENTED INFORMATION

The following strategic business units constitute the Corporation's reportable operating segments:

Lifeco offers in Canada, the United States and in Europe, a wide range of life insurance, health insurance, retirement and investment products, as well as reinsurance and specialty general insurance products to individuals, businesses and other private and public organizations. For reporting purposes, Lifeco combines its Canadian and European operations.

Investors Group offers a comprehensive package of financial planning services and investment products to its client base. Investors Group derives its revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. Investors Group also earns revenue from fees charged to its mutual funds for administrative services.

Parjointco N.V. holds the Corporation's interest in Pargesa Holding S.A., a holding company which holds diversified interests in a limited number of media, specialty minerals, water, waste services and energy companies based in Europe.

The segment entitled "Other" is made up of corporate activities of the Corporation. Other also includes consolidation adjustments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Corporation evaluates the performance based on the operating segment's contribution to consolidated net earnings. Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets.

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. SEGMENTED INFORMATION [CONTINUED]

INFORMATION ON PROFIT MEASURE

DECEMBER 31, 2003 [IN MILLIONS OF DOLLARS]

	LIFECO	INVESTORS	PARJOINTCO	OTHER	TOTAL
REVENUES					
Premium income	7,069				7,069
Net investment income	4,529	160		84	4,773
Fee income	1,831	1,714		(18)	3,527
	13,429	1,874		66	15,369
EXPENSES					
Insurance claims	8,346				8,346
Commissions	919	475		(18)	1,376
Operating expenses	2,199	494		33	2,726
Interest expense		85		138	223
	11,464	1,054		153	12,671
	1,965	820		(87)	2,698
Share of earnings of affiliate			88		88
Other income – net	(31)	40	(3)	777	783
Earnings before income taxes and non-controlling interests	1,934	860	85	690	3,569
Income taxes	550	299		1	850
Non-controlling interests	506	245		(55)	696
Contribution to consolidated net earnings	878	316	85	744	2,023
INFORMATION ON ASSET MEASURE					
Goodwill	5,636	2,316			7,952
Total assets	97,451	6,292	1,550	667	105,960
Assets under administration	61,699	74,674			136,373

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. SEGMENTED INFORMATION [CONTINUED]

INFORMATION ON PROFIT MEASURE

DECEMBER 31, 2002 [IN MILLIONS OF DOLLARS]					
	LIFECO	INVESTORS	PARJOINTCO	OTHER	TOTAL
REVENUES					
Premium income	11,187				11,187
Net investment income	3,638	127		48	3,813
Fee income	1,807	1,813		(17)	3,603
	16,632	1,940		31	18,603
EXPENSES					
Insurance claims	12,593				12,593
Commissions	718	498		(17)	1,199
Operating expenses	1,895	535		22	2,452
Interest expense		79		77	156
	15,206	1,112		82	16,400
	1,426	828		(51)	2,203
Share of earnings of affiliate			80		80
Other income – net		2	(87)		(85)
Earnings before income taxes and non-controlling interests	1,426	830	(7)	(51)	2,198
Income taxes	430	318		1	749
Non-controlling interests	277	223		(39)	461
Contribution to consolidated net earnings	719	289	(7)	(13)	988
INFORMATION ON ASSET MEASURE					
Goodwill	1,383	2,305			3,688
Total assets	60,071	5,987	1,558	703	68,319
Assets under administration	36,048	68,448			104,496

GEOGRAPHIC INFORMATION

[IN MILLIONS OF DOLLARS]				
	CANADA	U.S.	EUROPE	TOTAL
2003				
Revenues	12,640	2,729		15,369
Investment in affiliate, at equity			1,550	1,550
Goodwill and intangible assets	10,051	159		10,210
Total assets	74,564	30,246	1,550	105,960
Assets under administration	119,548	16,825		136,373
2002				
Revenues	12,738	5,865		18,603
Investment in affiliate, at equity			1,558	1,558
Goodwill and intangible assets	5,011	66		5,077
Total assets	42,700	24,061	1,558	68,319
Assets under administration	86,952	17,544		104,496

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. DISPOSITIONS

LONDON GUARANTEE INSURANCE COMPANY  On March 21, 2002, London Life completed its previously announced sale of its 82.9% indirect interest in London Guarantee Insurance Company, for proceeds of \$83 million resulting in an after-tax gain of \$31 million.

MACKENZIE INVESTMENT MANAGEMENT INC.  On December 16, 2002, Mackenzie disposed of an 85.7% owned subsidiary, Mackenzie Investment Management Inc., for net proceeds of \$95 million, resulting in an after-tax gain of \$2 million.

LIFESTYLE RETIREMENT COMMUNITIES LTD.  During 2003, London Life completed its previously announced sale of Lifestyle Retirement Communities Ltd., a wholly owned subsidiary of London Life, which resulted in an after-tax gain of \$35 million in the participating account and \$17 million in the shareholders' account.

26. SUBSEQUENT EVENTS

- [a] On January 14, 2004, Lifeco announced that Jefferson-Pilot Corporation had agreed to purchase U.S. group business of its indirect subsidiary, Canada Life, subject to regulatory approvals. The Canada Life U.S. group business consists of group life, disability and dental insurance, and represents approximately US\$340 million in annual premiums.
- [b] On February 25, 2004, Investors Group announced that it had entered into agreements with IPC Financial Network Inc. (IPC) and certain IPC shareholders to acquire, by way of a plan of arrangement, all of the common shares of IPC at a price of \$1.95 per share. Under the terms of the agreements, IPC shareholders will be entitled to receive, at their option, either [i] \$1.95 in cash, or [ii] \$0.975 in cash and 0.02973 of a common share of Investors Group for each IPC common share. Shareholders owning or controlling 54 per cent of IPC's outstanding shares have agreed to irrevocably support the transaction. IPC, which was founded in 1996, is the fifth largest financial planning organization in Canada, with \$7.1 billion of client assets under administration and \$1.2 billion of mutual fund assets under management. It serves the financial needs of Canadians through over 600 financial advisors. IPC will be operated as a separate entity and will be managed by its current leadership team. Subject to regulatory and shareholder approval, the transaction is expected to be completed in May 2004.

AUDITORS' REPORT
TO THE SHAREHOLDERS OF POWER FINANCIAL CORPORATION

We have audited the consolidated balance sheets of Power Financial Corporation as at December 31, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP.

Chartered Accountants
Montréal, Québec
April 2, 2004

POWER FINANCIAL CORPORATION

FIVE-YEAR STATISTICAL SUMMARY

DECEMBER 31	2003	2002	2001	2000	1999
[IN MILLIONS OF DOLLARS]					
CONSOLIDATED BALANCE SHEETS					
Cash and cash equivalents	3,646	2,437	2,120	1,831	1,636
Consolidated assets	105,960	68,319	67,069	59,403	56,903
Shareholders' equity	8,137	6,855	5,828	4,963	4,462
Consolidated assets and assets under administration	242,333	172,815	180,980	141,060	131,281
CONSOLIDATED STATEMENTS OF EARNINGS					
Revenues					
Premium income	7,069	11,187	10,477	9,976	8,526
Net investment income	4,773	3,813	3,916	3,813	3,717
Fee income	3,527	3,603	3,468	2,717	2,162
Expenses					
Paid or credited to policyholders	8,346	12,593	12,030	11,374	9,936
Commissions	1,376	1,199	1,176	1,035	911
Operating expenses	2,726	2,452	2,595	2,304	1,984
Special charges	—	—	204	—	—
Interest expense	223	156	144	71	74
	2,698	2,203	1,712	1,722	1,500
Share of earnings of affiliate	88	80	33	44	46
Other income – net	783	(85)	207	60	222
Income taxes	850	749	641	665	535
Amortization of goodwill	—	—	148	70	64
Non-controlling interests	696	461	284	305	335
Net earnings	2,023	988	879	786	834
[IN DOLLARS]					
PER SHARE					
Operating earnings before amortization of goodwill and non-recurring items	3.43	2.97	2.53	2.18	1.83
Net earnings – before amortization of goodwill	5.62	2.72	2.75	2.36	2.47
Net earnings	5.62	2.72	2.44	2.18	2.32
Dividends	1.2050	1.0400	0.8800	0.7250	0.6025
Book value at year-end	19.77	16.73	14.65	12.72	11.28
MARKET PRICE					
High	50.25	43.25	38.70	35.50	35.65
Low	36.50	31.85	29.10	18.95	20.80
Year-end	49.53	36.30	38.10	34.85	24.00

QUARTERLY FINANCIAL INFORMATION

	TOTAL REVENUES	NET EARNINGS	EARNINGS PER SHARE - BASIC	EARNINGS PER SHARE - DILUTED
	[IN MILLIONS OF DOLLARS]		[IN DOLLARS]	
2003				
First quarter	4,794	253	0.68	0.68
Second quarter	4,445	325	0.88	0.87
Third quarter	(59)	1,127	3.19	3.15
Fourth quarter	6,189	318	0.86	0.85
2002				
First quarter	4,821	237	0.65	0.65
Second quarter	4,156	297	0.83	0.82
Third quarter	4,912	210	0.57	0.56
Fourth quarter	4,714	244	0.67	0.66

BOARD OF DIRECTORS

ANDRÉ DESMARAIS, O.C.^[1]
DEPUTY CHAIRMAN OF THE CORPORATION
AND PRESIDENT
AND CO-CHIEF EXECUTIVE OFFICER,
POWER CORPORATION OF CANADA

THE HONOURABLE
PAUL DESMARAIS, P.C., C.C.^{[1][3]}
CHAIRMAN OF THE EXECUTIVE COMMITTEE,
POWER CORPORATION OF CANADA

PAUL DESMARAIS, JR.^[1]
CHAIRMAN OF THE CORPORATION
AND CHAIRMAN
AND CO-CHIEF EXECUTIVE OFFICER,
POWER CORPORATION OF CANADA

GÉRALD FRÈRE^[3]
MANAGING DIRECTOR, FRÈRE-BOURGEOIS S.A.

ANTHONY R. GRAHAM
PRESIDENT, WITTINGTON INVESTMENTS, LIMITED

ROBERT GRATTON^[1]
PRESIDENT AND CHIEF EXECUTIVE OFFICER
OF THE CORPORATION

THE RIGHT HONOURABLE
DONALD F. MAZANKOWSKI, P.C., O.C.^[1]
COMPANY DIRECTOR

JERRY E.A. NICKERSON
CHAIRMAN OF THE BOARD,
H.B. NICKERSON & SONS LIMITED

MICHEL PLESSIS-BÉLAIR, FCA
EXECUTIVE VICE-PRESIDENT AND CHIEF
FINANCIAL OFFICER OF THE CORPORATION
AND VICE-CHAIRMAN
AND CHIEF FINANCIAL OFFICER,
POWER CORPORATION OF CANADA

RAYMOND ROYER, O.C., FCA^{[1][2][3]}
PRESIDENT AND
CHIEF EXECUTIVE OFFICER,
DOMTAR INC.

GUY ST-GERMAIN, C.M.^{[2][3]}
PRESIDENT,
PLACEMENTS LAUGERMA INC.

EMÓKE J.E. SZATHMÁRY, C.M., PH.D.^[2]
PRESIDENT AND VICE-CHANCELLOR,
UNIVERSITY OF MANITOBA

DIRECTORS EMERITUS
JAMES W. BURNS, O.C.

THE HONOURABLE
P. MICHAEL PITFIELD, P.C., Q.C.

OFFICERS

PAUL DESMARAIS, JR.
CHAIRMAN OF THE BOARD

ROBERT GRATTON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

ANDRÉ DESMARAIS, O.C.
DEPUTY CHAIRMAN

MICHEL PLESSIS-BÉLAIR, FCA
EXECUTIVE VICE-PRESIDENT
AND CHIEF FINANCIAL OFFICER

ARNAUD VIAL
SENIOR VICE-PRESIDENT,
FINANCE

EDWARD JOHNSON
VICE-PRESIDENT,
GENERAL COUNSEL
AND SECRETARY

JOCELYN LEFEBVRE, C.A.
MANAGING DIRECTOR,
POWER FINANCIAL EUROPE B.V.

DENIS LE VASSEUR, C.A.
CONTROLLER

PIERRE-ELLIOTT LEVASSEUR
TREASURER

JEANNINE ROBITAILLE
ASSISTANT SECRETARY

[1] Member of the Executive Committee

[2] Member of the Audit Committee

[3] Member of the Compensation Committee

CORPORATE INFORMATION

Additional copies of this annual report, as well as copies of the annual reports of Great-West Lifeco Inc., The Great-West Life Assurance Company, London Life Insurance Company, Canada Life Financial Corporation, The Canada Life Assurance Company, Investors Group Inc., and Pargesa Holding S.A. are available from: The Secretary, Power Financial Corporation,

751 Victoria Square	or	Suite 2600
Montréal, Québec		Richardson Building
Canada H2Y 2J3		1 Lombard Place
		Winnipeg, Manitoba
		Canada R3B 0X5

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Montréal, Québec, Canada H3A 3S8, [514] 982-7555

1190-201 Portage Avenue, Winnipeg, Manitoba, Canada R3B 3K6, [888] 267-6555

STOCK LISTINGS

Shares of Power Financial Corporation are listed on the Toronto Stock Exchange, under the following listings:

COMMON SHARES: PWF

FIRST PREFERRED SHARES, SERIES A: PWF.PR.A

FIRST PREFERRED SHARES, SERIES C: PWF.PR.D

FIRST PREFERRED SHARES, SERIES D: PWF.PR.E

FIRST PREFERRED SHARES, SERIES E: PWF.PR.F

FIRST PREFERRED SHARES, SERIES F: PWF.PR.G

FIRST PREFERRED SHARES, SERIES H: PWF.PR.H

FIRST PREFERRED SHARES, SERIES I: PWF.PR.I

FIRST PREFERRED SHARES, SERIES J: PWF.PR.J

Shareholders with questions relating to the payment of dividends, change of address and share certificates should contact the Transfer Agent.

WEB SITE

Visit our Web site at: www.powerfinancial.com

SI VOUS PRÉFÉREZ RECEVOIR CE RAPPORT ANNUEL EN FRANÇAIS, VEUILLEZ VOUS ADRESSER AU SECRÉTAIRE,

CORPORATION FINANCIÈRE POWER

751, SQUARE VICTORIA, MONTRÉAL (QUÉBEC) CANADA H2Y 2J3

OU

BUREAU 2600, RICHARDSON BUILDING, 1 LOMBARD PLACE,
WINNIPEG (MANITOBA) CANADA R3B 0X5.

